

Public Utilities

FORTNIGHTLY

VOL. XIV; No. 8



OCTOBER II, 1934

The Tennessee Valley Electrical Appliance Problem

Coöperative plans of the Federal government, the power companies, and the manufacturers to overcome sales obstacles in order to secure a more extensive use of surplus current to be created by the new hydro development.

BY LEON H. CURTICE

"SWEET are the uses of adversity" are words that have been proven true many times. Certainly the problems which have their origin in the Tennessee Valley Authority could not be viewed with pleasure by anyone except in the light of these quoted words from the Bard of Avon.

Adversity first sought out the Tennessee Valley Authority itself. A present surplus of generating capacity—Muscle Shoals—coupled with a legally compelled addition to this capacity—Norris dam and Wheeler

dam—is certainly not a pleasing prospect to a producer of electric current for sale. A territory with a normal low money income, even with the best of general business conditions, would not provide an encouraging field for the sale of a surplus of anything.

Adversity next knocked at the door of the privately owned power companies within the Tennessee valley area. To them came the challenge either to reduce rates or force the government to come into direct competition by duplication of facilities. To reduce rates is not a matter ordinarily to be

PUBLIC UTILITIES FORTNIGHTLY

undertaken in the face of receding consumption; for rates must be justified by volume.

MANUFACTURERS have long found it necessary to reduce prices in bad times and to recover these losses by advancing prices as demand advances. Utility company prices, however, are not so easily advanced. Hence, the plan of the TVA to lower rates is absolutely contrary to usual utility practice.

Adversity had its way and one large company made the necessary rate reduction. Other companies are now faced with the necessity of following the same course or with meeting competition from government-built transmission and distribution lines.

Then came adversity to the "poor" manufacturers of appliances. The word "poor" is used with discretion. Producers of electric ranges and electric water heaters had for three years experienced continual diminution of business. Producers of refrigerators, as well as of ranges and water heaters, were nearly engulfed by an unfavorable price market. Facilities were available to turn out many times the present demand for appliances. At the very price nadir came the demand of the TVA for lower prices.

To refuse to cooperate would have invited the government to enter the appliance manufacturing field. Such entrance would have been accomplished by actually putting a government corporation into manufacturing, or by financing the entrance of some factor, new to the manufacture of such appliances. A most serious

problem was confronting manufacturers. Adversity was upon them.

If you simply agree with the previous statement of the situation you have not comprehended. Really to appreciate the conditions you must feel that I have grossly understated them.

A complete study of the uses of adversity as it affected the power companies or the TVA, as well as its effect on the manufacturers, provides a most interesting story. It is especially with the uses of adversity as they affect the manufacturers that we are concerned in this article. To have the TVA—government organization—coöperate with power companies and the manufacturers to promote the sale of appliances is a distinct asset to the electrical manufacturing industry.

To find rates so lowered that prospective customers are not frightened at the possible cost of cooking electrically, heating electrically, or refrigerating electrically is an attractive prospect to the producers of appliances. Because this combination of adversity and coöperation in the working out of the problem is so interesting we shall endeavor to set forth the contributions made by manufacturers to its solution under the banner of the Electric Home and Farm Authority, Inc.

The organization of the Electric Home and Farm Authority was a direct result of recommendations made by a committee of representative manufacturers selected by the president of the National Electrical Manufacturers Association for conference with David E. Lilienthal,

PUBLIC UTILITIES FORTNIGHTLY

director and general counsel of the TVA.

Before making any recommendations and before consulting with Mr. Lilienthal in any definite way a thorough analysis of the conditions to be faced was made on behalf of the committee.

THIS committee, therefore, was not only equipped with the personal knowledge of the individual members and their experience in the merchandising of electrical goods, but had in addition the statistical analyses of the territory and conditions which would have to be overcome were there to be placed in the area served by the TVA a quantity of appliances sufficient to utilize the existing surplus of generating capacity.

The four states most directly concerned in the activities of the TVA are Alabama, Georgia, Mississippi, and Tennessee. The states less directly concerned are Florida, Kentucky, North Carolina, and South Carolina.

Several of these eight states have extremely large negro populations. Not only is the income of the colored race low, but in general they do not have the desire for those better things in life which may be represented by

the electric refrigerator, the electric water heater, or the electric range.

THE following table, which shows percentages of negro population, is simply another way of stating that a large portion of the people who live in these states would be eliminated from the available purchasing market.

Alabama	37.6%	Negro
Georgia	38.3	"
Mississippi	53.1	"
Tennessee	20.0	"
Florida	29.3	"
Kentucky	10.0	"
North Carolina	28.0	"
South Carolina	46.0	"

Concentration of population has a distinct bearing on the sales methods which should be adopted in any particular instance. Further, concentration of population governs, in part, the proper sales expense. The difficulties and expense involved in the volume sale of appliances in small towns, villages, and the general run of rural territory are well known.

FURTHERMORE, with as large a rural territory as is indicated by the following table, we know that much of it has not yet been reached by the electric power company lines. Therefore, much development in this virgin area must take place before real results can be expected. The table pre-

Percentage of Families

	With Electric Service	Owning Electric Ranges	Owning Elec. Water Heaters	Owning Electric Refrigerators.
Alabama	26%	3.0%	0.5%	6.0%
Georgia	25			
Mississippi	18			
Tennessee	34			
Florida	55			
Kentucky	37			
North Carolina	31			
South Carolina	28			

PUBLIC UTILITIES FORTNIGHTLY

sents some interesting figures bearing on the problem:

Cities and Towns of Over 25,000 Population

Alabama	3
Georgia	5
Mississippi	2
Tennessee	5
*Florida	7
*Kentucky	6
*North Carolina	8
*South Carolina	4

You cannot expect to sell appliances or add to the money outlay for cooking or heating water or preserving food, unless there is money available for the purchase of such goods or services, no matter how desirable these goods or services may be.

IN addition to the eight states in which we are directly interested there are but five other states in the Union whose respective spendable money income is as low as those shown in the following table.

Annual Spendable Money Income per Capita

Alabama	\$132.30
Georgia	155.20
Mississippi	119.80
Tennessee	168.70
Florida	207.20
Kentucky	145.20
North Carolina	150.50
South Carolina	166.70

Finally we come to a consideration of the extent to which the people in the Tennessee valley area have availed themselves of electric service in the past.

IT is interesting to glance at the table shown on page 441 which shows the percentage of families which have electric service as well as those which use the appliances to be promoted by TVA.

*Many of these towns are not included within the Tennessee valley area.

In contrast with the above figures we find that the percentages of families having electric service in certain other states to be:

California	93%
Idaho	46
Maine	80
Oregon	70
Pennsylvania	82

As a final market indicator we discovered that 26 per cent of the electric customers in the four primary Tennessee valley states use 15 kilowatt hours, or less, per month.

To attempt an increased effort to promote the sale of electrical appliances without a study of the primary sales obstacles is of course inadvisable. A very satisfactory sales job, considering the general country-wide situation, has been done in these southern states which are to be affected by the operations of the TVA.

BUT it was quite evident that the obstacles to the increased sales must be speedily removed if success were to crown the efforts of the manufacturers, the power companies, the distributive outlets, and the TVA itself. In considering the removal of these sales obstacles, the need of money for that purpose is quite evident. Frequent lack of funds will explain the futility of many previous attempts. Now just what are these sales obstacles?

1. The lack of knowledge on the part of many of the public as to the economical use of electrical appliances coupled with the high cost of educational and promotional work necessary to create general acceptance has been the foremost obstacle to the sale of electrical appliances.

2. Although deferred terms of payment have been liberal, reference to



Coöperative or Governmental Competition

"PRODUCERS of electric ranges and electric water heaters had for three years experienced continual diminution of business. Producers of refrigerators, as well as of ranges and water heaters, were nearly engulfed by an unfavorable price market. . . . At the very price nadir came the demand of the TVA for lower prices. To refuse to coöperate would have invited the government to enter the appliance manufacturing field."

the annual available money income will show why the necessary instalments have been a heavy drain on present limited incomes.

3. The necessary wiring and installation costs in the case of ranges and water heaters are such as to substantially increase the cost of the appliances in place and ready for use in the customer's home. In some cases power companies have absorbed these charges and in other cases the consumer has been compelled to pay for them.

4. Insufficient store displays and exhibits have prevented as complete an interest being developed in these products as is desirable.

5. Competitive fuels. Natural gas, oil, coal, and wood are available at lower costs as well as lower cost equipment for their utilization.

ances and electrical energy in the Tennessee valley area if the following recommendations were followed:

1. Maintenance of the present channels of distribution.

2. Provision by manufacturers of low-cost electric ranges, electric water heaters, and electric refrigerators, having less than normal markup.

3. Aid by the TVA in reducing the cost of distribution.

4. A coöordinated and directed sales promotional effort under the auspices of the TVA.

The political, social, and economic repercussion arising out of any change in the present channels of distribution would have been tremendous.

FACED with the fact of these sales obstacles in detail, in the light of their own good judgment, the committee reported that the TVA could promote the sale of electrical appli-

LET us imagine for instance the results which would have ensued had the TVA or a subsidiary organization purchased a large quantity of these appliances and had itself sold

PUBLIC UTILITIES FORTNIGHTLY

them to the prospective users of larger quantities of electrical energy. Ensuing unemployment, destruction of tax and rental values, and the elimination of the service stations provided by the present channels of distribution do not indicate steps to be undertaken lightly. These present channels of distribution represent the most economical and most effective method which manufacturers have been able to develop. Any other method of marketing these appliances, employed as a substitute for the methods now used, would not result in any substantial saving or better service to the customer and would destroy an effective continuity of operation. Furthermore, the development of substitute channels would impose a serious time handicap on appliance distribution.

The committee was of the opinion that low cost electric ranges, water heaters, and refrigerators would be placed on the market by manufacturers at a lesser profit than was then the case. Subsequent developments have proved the accuracy of this prophecy. The committee was also of the opinion that the selection of a model from the line of appliances now produced would be a more satisfactory procedure than the building of new leader models.

ACCORDINGLY, in early March, the specifications having been drawn by the government organization in conjunction with the technical representatives of the manufacturers, these low-cost appliances were examined by the government officials and, as a result, those approved were made eligible for the coöperation of the

Electric Home and Farm Authority, Inc., a subsidiary of the TVA. The two following paragraphs from the report transmitted to the TVA are of distinct interest at this point:

Starting with the manufacturer, the various steps in the course of the distribution of these appliances from the manufacturer to the ultimate consumer will each be asked to take a lesser figure if any portion of their cost can be eliminated. In other words, if it becomes easier to sell they will be asked to reduce their cost of distribution.

Because we believe that this program is in the nature of an experiment and that all of its effects cannot be calculated in advance, we desire to restrict the use of these prices by manufacturers and retail outlets to the Tennessee valley area in which the TVA operates. We also believe that the Tennessee Valley Authority will see the wisdom of confining their coöperation to those who are at present manufacturing these appliances. To do otherwise would increase production capacity, make for unemployment, and so defeat one of the primary purposes involved in the entire procedure. Also, we are firmly of the opinion that a satisfactory trial can be had only by extending the plan to the complete area in which the Tennessee Valley Authority operates.

THE specific steps recommended by the committee as a means of reducing cost of distribution were for the TVA to undertake the preparation and distribution of booklets, broadsides, and other educational pamphlets relative to uses of electricity in the home. It was proposed that installment sales be financed on the smallest permissible monthly payment under terms which would be most attractive to the distribution outlet. It was proposed that the purchaser of these appliances be relieved of the cost of wiring and installation. The committee furthermore was decidedly of the opinion that a considerable saving could be made by utilizing, to the full, existing credit, billing and collecting facilities of the utilities.

PUBLIC UTILITIES FORTNIGHTLY

The organization of the Tennessee Valley Electric Promotional Committee as a means of coördinating the sales promotional efforts on electric appliances throughout the area was proposed as the most effective way of securing the consolidated coöperative effort of all factors in the distribution of appliances in the area.

THE result of a study of the recommendations made by this special committee of the National Electrical Manufacturers Association was the formation, upon order of the President of the United States, of the Electric Home and Farm Authority, Inc., a corporation organized under the laws of the state of Delaware. This corporation is undertaking two particular projects. One, sales promotion through the area including the advertising of electric current and low-cost appliances. In addition the Electric Home and Farm Authority is acting as the finance company by which leader items will be financed throughout the territory of those utilities, both public and private, whose rates meet the approval of the TVA.

Through the operation of the Electric Home and Farm Authority it is expected that the adversity which touched the purse strings of the manufacturers of appliances will react to their benefit. This should come through the increased demand for appliances by the TVA, the increased demand for appliances by the power companies who may be coöperating with the Authority, and the large in-

creased demand for appliances from consumers.

THE publicity already released has created a splendid background for the new business of placing appliances in the homes throughout the valley. It is expected that advertising and other publicity materials will soon be in the field which will further increase the demand for appliances.

Should the present policy of the TVA be continued with respect to the reduction of rates for electric current, in the opinion of the writer, we shall see not only companies in the Tennessee valley area, but companies outside bringing their rates down to a point where it will be absolutely necessary for them to get additional appliances on the line to justify the lowered rates.

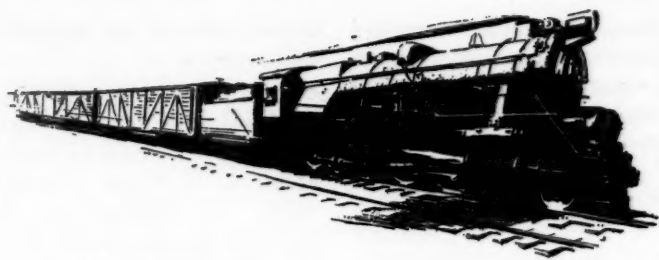
The electric range and the electric water heater have been waiting for this opportunity for it carries with it the implication that combination companies which have been attempting to protect their gas business by putting a damper on the electrical business, at least in certain localities, will now be obliged to do everything in their power to secure the justifying load of electric current.

The further implication of such a condition is the segregation of the gas and electric business to the end that each will be permitted to do its utmost to sell its own product and services.

So once again we say, "Sweet are the uses of adversity."

¶ *When we control business in the public interest we are also bound to encourage it in the public interest or it will be a bad thing for everybody and worst of all for those on whose behalf the control is nominally exercised.*

—THEODORE ROOSEVELT.



EXPERIENCE IN RAILROAD CONTROL AS A

Lesson in Utility Regulation

Some of the major pitfalls which the company authorities and the regulatory agencies must avoid if they wish our public utilities to escape a repetition of the disasters which have befallen the railroads.

By DUDLEY F. PEGRUM

PUBLIC utilities have shown remarkable stability, fortunately, during the present depression. While their revenues have been affected, and they have been forced to adopt rigid economies, they have, on the whole, shown none of the prostration that has characterized the railroads.

For this reason, the belief has developed that there is little likelihood of their being caught in a similar situation at some future date and the parallel with railroad experience is hidden from view by present superficial differences. An examination of public utility regulation shows the two fields to be painfully similar, however.

The lesson of railroad regulation should, therefore, be learned now, and the experience applied before public utilities become involved in the same dilemma.

A long-cherished theory is that one of the main functions of regulation

is to remove public utilities from the field of speculative enterprise. With this end in view our regulatory policies have been developed upon a set of principles designed to remove speculative gains and to eliminate the disastrous results of serious losses and financial embarrassment which accompany periods of prolonged depression. One objective, in other words, of regulation has been to make public utility securities attractive to investors because of stability and certainty of income through periods of varying economic activity.

YET in 1934, after almost fifty years of regulation we find our greatest utility, the railroads, so enmeshed in the throes of depression, that they present a most unattractive picture to the investment world. The effects of the depression on the railroad industry have been so serious

PUBLIC UTILITIES FORTNIGHTLY

that nation-wide concern in the solvency of railroad enterprises has become manifest and it is pretty generally recognized that the solution of our transportation problem is one of the prime tasks of the present period of reconstruction.

The end of the World War found us faced with a difficult task of railroad rehabilitation but, in contrast to the situation at that time, we now find ourselves faced with an issue so complex that panaceas are conspicuous by their absence.

Government ownership, which was so prominent in the proposals at the end of the war, scarcely has an advocate today, even though "socialization" is in much greater favor.

This intriguing situation naturally raises a large number of questions. It affords us our finest object lesson in systematic regulation and an analysis of it will bring to the fore some of the major pitfalls which public utility authorities and regulatory agencies must avoid if they wish our public utilities to escape a repetition of the disasters which have befallen the railroads.

WHEN the Transportation Act of 1920 was passed it was confidently believed that at last a regulatory system had been devised which would put the experiment of railway regulation squarely to the test. This legislation was drawn up to meet every type of problem that the Interstate Commerce Commission had been called upon to solve during its thirty years of existence. A list of the issues awaiting solution in the railroad industry together with the history of those issues is a picture of the Act

of 1920. It was the logical conclusion of our regulatory experience to date. To that extent it was sound legislation.

The law and its subsequent administration, however, were based upon certain assumptions which need to be emphasized.

The legislation of 1920 was undoubtedly erected upon the supposition that the railroads had a virtual monopoly of transportation within the boundaries of the United States and that there was no prospective threat of an alternative source of supply which would prove to be a disturbing factor of any consequence. This was a belief upon which the public authorities and the railroad executives relied altogether too long.

IN line with this was the widespread idea that a monopoly could maintain virtually constant rates of profits during periods of varying economic activities. Thus, the attempt was made to provide the railroads with a "fair return" year in and year out, without recognition of the fact that an average fair return can be achieved only by allowing more than the average during years of prosperity.

Furthermore, the notion was prevalent that regulation could eliminate speculative influences within the industry, and could insure comparative immunity from policies external to the industry. Of course, the entire country prior to 1929 was imbued with the idea that a "new era" of permanent prosperity had arrived and hence, little thought was given to the problem of creating reserve strength for a rainy day.

It also was felt that the railroads

PUBLIC UTILITIES FORTNIGHTLY

were sufficiently stable to carry a large burden of bonded indebtedness and the question of whether they could carry this in a period of severe depression was regarded as of purely academic interest. A large bonded indebtedness was also considered to be desirable from the public point of view because it contributed to lower capital costs. Moreover, the policy of restricting return, through the medium of a blanket rate, encouraged the raising of capital by bonds because of the increased return thus obtained on stock equities.

FINALLY, no attention was given to the fact that speculative gains and high profits in other industries necessitated concessions in this direction in the railroad industry if credit was to be maintained and sound financial structures developed. In short, it was a static rather than a dynamic theory of regulation which lay behind the regulatory policy inaugurated in 1920.

The contrast of the hopes of 1920 with the realities of 1934 calls for an answer to the questions: Why did this legislation fail? What factors were present which invalidated the assumptions upon which our regulatory policy proceeded?

An examination of the situation re-

veals a large number of contributing causes of varying importance upon which judgment will necessarily differ as to the appropriate weight to be assigned to each. In any case it will be conceded by all that these factors were all of real significance.

In 1920 the railroad constituted a virtual monopoly of inland transportation. In 1934 there are six agencies of such importance that each has its specific place in our transportation structure. This revolutionary change is largely the fruition of the accumulation of innumerable technological changes in industry in general and in transportation in particular.

NOT only has this resulted in a surfeit of transportation facilities and in the development of highly specialized agencies which have permanently removed traffic from the railroads, as for example, pipe-line transportation of petroleum; but in addition, the power unit has been broken down in such a way as to make possible the acquisition of efficient and flexible transportation units without large scale production or the assumption of common carrier obligations. Thus the private automobile has disrupted the entire passenger business while the motor truck has presented



QUOTE *"THE Interstate Commerce Commission made no apparent attempt to interpret the rule of rate making in a flexible manner and rate adjustments have borne too much of an inverse relationship to business conditions. Too little attention has been paid to the necessity of building up liquidity during periods of prosperity and too little encouragement, to say the least, has been given to the financing of new investments by stocks rather than by bonds."*

PUBLIC UTILITIES FORTNIGHTLY

enterprise with a type of carrier that is beyond the control of present regulation.

This situation is of supreme importance in public policy because, from now on, transportation for hire must grapple with the fact that there is an alternative source of supply with which transportation concerns must compete but which cannot be brought under rate control or common carrier responsibilities.

The lack of grasp of the problem of coördination of the various parts of our national transportation system has been manifest for some time. This shortcoming has been due in part to the limitations on the powers of the Interstate Commerce Commission, in part to the division of control between various governmental agencies, and in part to the restriction of railroad participation in other fields of transport.

EVEN now when the evils of the present situation are evident there is little possibility of rapid development of a national transportation policy, and even if we were to move quickly on the latter score the problem has acquired such magnitude and complexity that adequate measures are extremely difficult to achieve. The growth of various types of commercial carriers independent of railroad control has given rise to a set of "vested interests" which will not succumb without a struggle and the situation is such that all cannot survive independently if we are to return again to ordered and effective regulation. Moreover, the factor chiefly responsible for the failure to grasp the need of coördination, name-

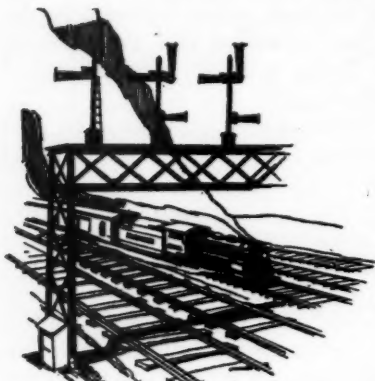
ly, the belief that the railroads were a monopoly and could maintain that position, resulted in a complacency that has been rudely shattered by the sudden realization that the railroads are facing a tremendous modernization program.

Accompanying this situation and resulting from much the same causes has been the rigidity of our regulatory policy. Here again, the theory of monopoly and stability has been dominant. In consonance with this the legislation has been too specific. The statutory requirements regarding fair return and consolidations are too inflexible and contain many contradictory items.

NOR has the administration of the law done a great deal to relieve the rigidity. The Interstate Commerce Commission made no apparent attempt to interpret the rule of rate making in a flexible manner and rate adjustments have borne too much of an inverse relationship to business conditions. Too little attention has been paid to the necessity of building up liquidity during periods of prosperity and too little encouragement, to say the least, has been given to the financing of new investments by stocks rather than by bonds. Moreover, the prevalent policy of the companies of plowing undisbursed earnings back into fixed capital has served only to aggravate the problem of solvency and liquidity. Finally, it is evident, by now at least, that altogether inadequate provisions were made for depreciation, modernization, and amortization programs.

This bill of indictment would not have been possible had relatively per-

Coöperative Type of Regulation Necessary



"THE desperate plight of the railroads seems at last to have brought home the fact that regulation can be successful only so long as it is of a coöperative type. The recent report of Coördinator Eastman presents an admirable statement of regulation along these lines and if private management and public officials sit down to solve their common problems in a spirit of coöperation and good will then a new chapter in railroad regulation will soon be written."

manent stability in the railroad industry been achieved. Two factors, however, made this impossible. First of all there was a set of external influences during the period of prosperity, and second there was the depression.

THE years immediately prior to 1929 were marked by an accelerating business activity and by speculative developments in the industrial field which were comparable to speculation in railroads in the latter part of the Nineteenth Century. The prospects of large profits and speculative gains in industrial enterprises weighted the capital market in favor of the industrials with the result that the railroads were forced to turn more and more to financing by means of bonds. This unhealthy tendency was further aggravated by the possibility of receiving more than a "fair return" on the stock equities if a large portion of capital was raised by bonds. Thus, financial pyramiding became an evil

and finally, the holding company made a belated entry into the railroad field partly as a means of securing greater profits on stock investments and partly to avoid consolidation restrictions.

THE financial difficulty could have been averted, in part at least, if recognition had been given to the fact that financing of railroads by stock issues under such conditions is possible only if profits are adequate to attract investment in such securities. In other words, regulation must recognize the influence of external factors and flex its policies accordingly if the distortion between regulated rigidity and nonregulated instability is to be softened. Perhaps it should be added that the regulatory authorities would have to possess the power to see that financing was carried out in accordance with the conditions for which the extra profits were granted. Other external influences such as technological changes have already been pointed out and do not need to be repeated here.

PUBLIC UTILITIES FORTNIGHTLY

The second factor which upset railroad stability was the depression. The present world-wide economic upheaval has, of course, hit all industry with varying degrees of severity. The plight of the railroads is so well known that no statement concerning the effects of the depression on railroad enterprise needs to be made. That rail transportation as a whole has suffered as much as any line of business does not need to be proven here.

THE important thing is why the railroads have become of such special concern.

Basically, this is because they are a public utility, but this does not explain why their position is so much worse than those industries commonly classified as public utilities. As has already been pointed out the financial and income structures of the railroads left little flexibility for major readjustments. Yet, it is just this that they have been called upon to face. In the first place they had the misfortune of being caught in a major technological shift of revolutionary proportion at the same time that the depression swept in upon them. In the second place, they supply a producers' good, that is their prime service is for production rather than consumption purposes. This means that they are decidedly sensitive to the effects of business fluctuations because when production falls to low ebbs transportation must do likewise.

The foregoing discussion has aimed to point out the main difficulties of our regulatory policy which the present dilemma has emphasized. No attempt has been made to apportion re-

sponsibility as between the government and the railroads. It is the writer's belief that both our system of regulation and management must shoulder the responsibility.

WHILE our regulation has undoubtedly been too restrictive it must be remembered that our present policy developed as a defense against gross abuse and that the government assumed more and more power over the railroads because no other solution was offered. Furthermore, each step has been resisted by executives and never-ending court battles have occupied the regulatory stage. The result has been that each side has stood on its legal rights and hence, legal rather than economic issues have been paramount. This conflict between public and private officials has been solved to date chiefly by the use of compulsion, with the natural consequence that power and responsibility have become sadly separated.

The awakening to this situation has come rather late in the day but the desperate plight of the railroads seems at last to have brought home the fact that regulation can be successful only so long as it is of a coöperative type. The recent report of Coördinator Eastman presents an admirable statement of regulation along these lines and if private management and public officials sit down to solve their common problems in a spirit of coöperation and good will then a new chapter in railroad regulation will soon be written. From all appearances, the hard knocks of bitter experience and the force of sheer necessity have brought home the realization that conflict results only in defeat to both sides.

PUBLIC UTILITIES FORTNIGHTLY

THE dominant theory which lies behind the regulation of public utilities in this country at the present time is the same as that which formed the foundation of the Transportation Act of 1920. The basis of regulation upon which the leading state commissions of the country act is that the profits of regulated enterprise can and should be stabilized practically to the point of rigidity.

The leading commissions adopted, during the years of prosperity, the general principle that the rate of return must be approximately stable from year to year and that at no time must a utility earn a return higher than that which has been established as fair. Rate schedules devised on this theory have proved too inelastic, or, indeed, they have been perversely elastic. It may be argued that, while fair return has been treated as a constant and a maximum, an element of flexibility has been introduced by varying the rate base. To this the reply is that the leading commissions held to the theoretical soundness of prudent investment, while the application, at the present time, of cost of reproduction, so ardently sponsored by the utility interests during prosperity, would be almost fatal to the industry.

THE element of flexibility, of course, should have been intro-

duced through the medium of the fair return. Furthermore, the policy of allowing a blanket rate of return encouraged trading on the equity because more profits could thereby be made. Our regulatory policy can scarcely be blamed for holding company abuses but it certainly can be criticized for supporting a method of fixing fair return which placed a premium on financing by means of bonds.

Nor has much been done by way of developing a policy regarding the disposition of fair return. Even though this be regarded primarily as a function of management, it must be recognized that the amount of fair return should bear some relation to its disposition. Commissions have the right, at least within the limits set by court decisions, to fix profits in accordance with their use and this offers one of the most effective ways by which flexibility may be introduced into rate making.

PUBLIC utility regulation has developed under the impetus of the same spirit that characterized railroad regulation. Abuse of public interest, and lack of a sense of public responsibility on the part of utility executives resulted in the logical development of restrictive regulation. During the years down to 1929 the utilities fought for all they could get in the courts



T"*Today we are in a period of change and economic arrangements are being examined with a view to correcting the abuses which have led to the present catastrophe. Private business morality and responsibility are no less on trial than our economic institutions. Regulation is being subjected to severe scrutiny. Now is the time to profit by experience.*"

PUBLIC UTILITIES FORTNIGHTLY

while commissions tended to fix return so as to fall just beyond the bounds of confiscation. Today, the tables are turned with resulting embarrassment to all concerned. Years of arrangements such as these have bred suspicion on all sides with the result that public utility regulation is very much in the center of the disturbed political arena with indications that both sides are determined to stand as much as possible on their legal rights.

For this state of affairs, utility executives must shoulder a large share of the blame. There has been too much of "the-public-be-damned" attitude so characteristic of the earlier railroad period. Too many devices have been invented for obtaining profits outside of the fair return assigned. Thus huge salaries have been included in operating costs whereas a considerable part of them are divisions of profits and should be treated as such.

THE holding company, developed, in recent years at least, to escape the limitations of regulation, has resulted in abuses not soon to be forgotten. It is not surprising that the attitude of the public at the present time is that private management has proved itself unworthy of the responsibility which its enormous power has given it.

It may be urged that the foregoing discussion is largely academic because most of the utilities have weathered the present depression in remarkable fashion. That the position of the utilities is very favorable must be admitted but this does not seem to be due to the wisdom of our regula-

tory policy nor to the statesmanlike qualities of the business executives. Rather is it the result of factors for which neither was responsible. The major part of utility development in this country has taken place since 1912 and therefore under unusually favorable economic conditions. This, coupled with the fact that it was a new industry, enabled it to escape many of the problems of securing new capital which beset the more mature railroad enterprise. Furthermore, utilities, to date, have been occupied primarily in supplying a consumers' market. This means that they are not so closely intertwined with industrial activity as the railroads and therefore are not nearly so susceptible to business fluctuations.

IT is at this point that the parallel between railroad and utility experience stops. But will this statement hold true for the future? If regulation proceeds on the assumption that it is impossible for technological changes to affect utilities as it has affected the railroads, we are likely at some future date to be trying to solve for the former a problem similar to that now presented by the latter.

A few weeks ago a utility executive urged upon the writer that no major technical change could occur outside of the utilities because they had such complete control of research. The railroads believed the same thing at the end of the war. Then, too, utilities today are seeking industrial markets and in the future they will undoubtedly expand heavily in this direction. As they do so they will more and more be serving a producers' market and will thus become

PUBLIC UTILITIES FORTNIGHTLY

more subject to industrial vicissitudes.

To sum up. Today we are in a period of change and economic arrangements are being examined with a view to correcting the abuses which have led to the present catastrophe. Private business morality and responsibility are no less on trial than our economic institutions. Regulation is being subjected to severe scrutiny. Now is the time to profit by experience.

THE immediate question facing government and management is to solve the problems of the depression. Success in this can come only by coöperation; neither side can afford to stand strictly on its rights for this will only sow seeds of future conflict. Furthermore, we must rec-

ognize that we are in a dynamic society. Regulation cannot succeed on static theory.

Private management is faced with the necessity of presenting far-sighted and statesmanlike policies. Public officials must recognize that they should "be primarily a means of concentrating and bringing to focus the best thought of the industry rather than a means of supplying or imposing thought from without." (Eastman's Report.)

This important issue is complicated and many-sided; theoreticians and academicians may present the numerous factors which must be considered; private and public officials must shape their policies to meet these contingencies, for whatever is possible is probable.



Facts Worth Noting

ONE hundred thirty-seven power companies, representing 93 per cent of the industry, sold 11 per cent more industrial power in 1933 than the year before.

* *
BASED ON statistics for 1932, the nation's tobacco bill is well over a \$100,000,000 in excess of its domestic power bill. We spent close to \$800,000,000 in that year for cigarettes and cigars—and we spent but \$700,000,000 for the current that provided us with light, operated stoves and refrigerators and washing machines, and performed—cheaply, efficiently, swiftly—a thousand and one other necessary household tasks.

* *
RADIO makes more strides forward as an arm of the public service. Chattanooga has a new police radio that prevents unauthorized persons from listening in. Police sanction is necessary to install it. Bayonne, New Jersey, develops a police radio system that enables occupants of police cars to talk directly to each other en route, instead of having to communicate by telephone through headquarters. The Federal Radio Commission now has licensed ninety-two cities, two counties, and four states for police broadcasting systems. Eighteen cities, two counties, and one state have applied for construction permits for proposed stations.



Checking Up on Bills for Utility Service

Do utility customers need protection from overcharges under the rate schedule rulings of the state regulatory commissions?

By DUDLEY M. WILCOX

I DON'T know how many bills the public utility companies of the country send out every year. One fairly large company, I am told, has 600,000 customers. That means 600,000 bills a month or 7,200,000 a year. Some job for the billers.

I am not a statistician or a good guesser but if you are you can make a rough estimate of the number of bills all of the companies of the country have to send out and collect every year. It would run into pretty tall figures.

Now, you and I may be satisfied with our service. We may admit to ourselves, if we are fair-minded, that the service is worth much more than we pay for it; but did we ever stand on our front porches and welcome the coming of the mail man with that regular monthly bill, or any other bill for that matter? Honestly now, don't we really look at these bills, no matter how fair they may be, as just so much bad news? And when Uncle

Sam's carriers bring this bad news 7,200,000 times to the customers of a single company every year, you can appreciate one reason why the utility companies have a public relations problem always on their hands.

Besides being bad news on general principles, there is in each bill some possibility of error, a potential cause for a kick. When it is remembered that thousands and thousands of these bills are rendered every month and that errors can be made both by the companies and the customers, because of optional rate schedules, the wonder is that the percentage of error and just cause for complaints is as low as it is.

NATURALLY, when so many thousands of bills have to be rendered there is not only chance for error but many opportunities for differences of opinion and so a great many disputes have arisen over bills, although disputes have been remark-

PUBLIC UTILITIES FORTNIGHTLY

ably few compared with the volume of billing. Some of the complaints have come directly from customers themselves. Others have been provoked by outsiders known among the utilities as "bill snatchers." A bill snatcher, in the opinion of the utility companies, is an opportunist who spends his time trying to earn a few dollars on a contingent basis in discovering discrepancies in bills rendered to utility customers. He was never very popular. People did not always trust him.

A FEW of the disputes over utility bills which could not be adjusted satisfactorily have gotten before the courts and commissions and thereby hangs the present tale.

Most of the utility companies have designed rate schedules which give their customers the benefit of lower rates for special or larger uses of the service. Some of these schedules are known as optional rates. The customer can take service on whatever basis under the established schedules he can figure will produce the lowest bill for his particular use or business.

Along with this plan, for the benefit of the customers, however, goes another potential cause for complaint and dissatisfaction. Who is to determine what is the best rate for the customer? Is that up to the customer or to the company? Whose duty is it to see that the customer is at all times on the rate schedule that will produce the lowest bill? Who is in the better position to know—the customer or the company?

IN the comparatively few bill disputes which have gotten before

the courts and the commissions, those questions have been considered and decided.

The prevailing view seems to be that utility companies should give their customers every reasonable assistance in selecting the schedules most advantageous to the customers, and that the companies should give proper notice of the various choices of schedules that can be made, printing this notice conspicuously on bills and contracts. It has been held, however, that it would not be reasonable to require the companies to check up at frequent intervals to determine whether the character and extent of the customer's service had so changed as to entitle him to a more favorable schedule. The reason is that the customer is in a better position to check up on his service than is the company.

So it has been held that a customer is not entitled to damages or reparation when he finds himself on a schedule which is less favorable than he could have had. That being the law it has afforded an opportunity for the establishment of a new business enterprise which has supplanted the "bill snatcher" and which does not operate wholly on a contingent basis as the "bill snatcher" did. Its purpose, apparently, is to do for the customer what the law says the customer must do for himself in respect to optional schedules; and to check up on the customer's bills to see that through no error whatsoever is he overcharged.

ONE such business enterprise has a corporate charter departmentalized organization, in short all the as-

PUBLIC UTILITIES FORTNIGHTLY

pects of a large business institution. Its solicitation activities have been quite extensive. One of these organizations is sending salesmen into several states. They are selling industrial electrical consumers in those states a plan to lower their operating costs, cut down the overhead, and increase certain profits by reducing the cost of electric light and power, gas, water, and telephone service. It reports that it has secured a large number of clients from the largest type of consumer to the smaller one. The principals are said to be contemplating the invasion of new territory as fast as capital and technically trained personnel will permit. They are said to be considering the idea of national expansion by means of establishing agencies in various states.

APPARENTLY these organizations have convinced themselves that a wide opportunity exists for a permanent business owing to a quite general policy of utility companies to correct only such faults as they are forced to do by pressure of the commissions, court verdicts, legislation, and public clamor. A special opportunity for the extension of such a business probably exists at the present time by reason of the distrust and criticism that has been leveled against public utilities. Warranted and unwarranted hostile public opinion and

the desire to economize as much as possible would naturally open the door for any service which would promise any saving.

IN spite of all of that, however, the promotion of such an enterprise requires clever salesmanship for, after all, whether it will pay the customer or not is something of a gamble since the service is not rendered wholly on a contingent basis. If the customer is not willing or not competent to do his own checking and believes he is being overcharged but is not sure, he may be willing to gamble a down payment he must make to the service company against a possible gain which may come to him through the discovery of mistakes. Otherwise he would not be willing to take a chance. These so-called service customer organizations, therefore, operate, even under present conditions, through first-class salesmen.

Let us assume what might be done by such a salesman well instructed and working on a plan of this kind. Consider that a busy and worried executive is seated at his desk looking at the mass of work before him and wondering vaguely if, in the light of present business conditions, it is all worth the bother. Suddenly his secretary appears and says: "Gentleman to see you, sir. He is Mr. X who says he has a proposition that



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PUBLIC UTILITIES FORTNIGHTLY

will save you money on your operating expenses."

"Yes, I know," says the boss, "that is what they all say; but what is he selling?"

"Some kind of service," the secretary replies.

"What kind of service?"

"I am afraid I don't quite understand what it is, sir."

"Well send him in but he had *better be good.*"

A pleasant looking salesman presents himself and starts right in: "Mr. President, the plan I have for you will pay you a thousand per cent profit. I am prepared to prove every statement I make and all in ten minutes. Frankly, this will be a handsome thing for you. You be the judge and jury. I accept your verdict either way cheerfully."

THIS bold statement amuses the executive so much that he gives the salesman the signal to go ahead. The salesman knows his "opener argument." Let us assume that he is backed up by the usual endorsements, letters from satisfied clients, and other evidence that his organization can and does render real service to its clients. He can tell the prospect that his organization has built up a personnel of technical men who have in a majority of cases been well trained by past employment in the utility field so that they know what it is all about and what to do about it. The plan will probably largely converge around the series of duties which the service company agrees to perform to the best of its professional ability over a period of time set forth on the face of the application.

It perhaps stipulates that the service rendered will include: the analysis of the client's contract for utility service; auditing of the client's utility bills; inspection of wiring to client's meters; supervision of uses of utility service by audit of client's bills each month; surveys of illumination by instrument tests; motors and equipment; surveys of telephone equipment; interpretation of client's utility schedule provisions; assistance in securing refunds and adjustment for clients when overcharges are established, and furnishing consultation service.

All of this is, of course, a perfectly legitimate service and a very useful service provided it results in the reduction of the customer's bill, which of course is the great gamble the customer is required to take.

FROM the company's standpoint, *provided the problem is clearly understood by the customer*, there is nothing it would seem to complain about. Any revenue it loses through the discovery of mistakes in billing is revenue the company is not rightly entitled to. Any discovery of the fact that a customer is not billed at the lowest rate that might be possible, should be, and probably would be, welcomed by the company because that is what optional schedules are for, and because it would mean a satisfied customer, and because satisfied customers are the best asset the companies can have. Many companies, it is said, have gone to the limit in assisting customers to solve that important problem of choosing the lowest rate. But to go on with the story.

Assume that the executive is in-



Customer's Attitude on Utility's Billing Obligations

"THE average customer knows very little about the law. It is natural for him to think it is the company's duty to check up on his business from time to time to see that he is getting the lowest rate possible. Even if the customer knew the law to be otherwise he would think the company was hiding behind a technicality in order to extract as much money as possible from him."

formed that his utility bills will be scrutinized by the inspection department every month; that the new ones will be checked against the old, that if the new bills are larger than the old, the service organization will find out the reason. Perhaps the customer may have installed new machinery or the plant may have been working over time. There are possible causes for the increased charge. If a waste is discovered it will be reported but if there is an overcharge, the executive will be told that the service organization will take the matter up with the utility.

THE prospective customer will probably be reminded by the salesman that utility companies under the law are not required to see that their customers are on the most advantageous schedule and that the customer must look after this himself or suffer the consequences. This is one of the important jobs the salesman says his organization is prepared to do.

"Well, what will it cost me?" the executive will probably ask at this point. "Will you handle it on a contingent basis—no save, no pay?"

The prospect will be informed that the service company does not operate on a contingent basis; that the service is considered professional and that it would be unethical to provide professional service on such a basis, *but that a substantial part of the expected compensation will be conditional*; that is to say, on tangible profits from the service.

"Well, how much do I have to pay?" the prospect would be sure to ask.

The agent could then inform him that the contract provides for payment of say, 10 per cent of the amount of the customer's last year's bill for all utility services investigated; that one half of this amount, or 5 per cent, is to be paid down; that the balance is to be paid only when during the period of the contract the service company succeeds in obtaining a 100 per cent net saving of the total

PUBLIC UTILITIES FORTNIGHTLY

contract fee paid, a handsome saving.

This would limit the customer's gamble to an out-of-pocket payment of 5 per cent of his last year's bill for service, a very substantial gamble in some cases.

On such a basis the service organization would gamble on half of its fee (half being contingent). In this respect it would differ from the so-called "bill snatcher" who gambled on the whole of his compensation.

THE reparations, profits, refunds, etc., to be credited to the service company's efforts will perhaps include checks received for overcharges, credits received by way of deductions from future bills, and savings resulting from meter corrections, rate schedule adjustments, and recommendations for cheaper operating practices.

This new activity has largely arisen from the fact that courts and commissions have, as stated, held (probably soundly) that it is not a utility's duty to keep a constant check-up on the customers' business, to see that the customer is at all times taking service at the best or lowest rate.

These customer service companies claim to be doing a large business. How permanent the business will be will depend, of course, on how far savings would justify the continuance from year to year of such constant check-up, and upon whether the utility companies could, or would, be permitted by the commissions to impose the expense of such check-ups upon their customers as a whole, or upon whether the companies might not perform this service for individual customers at cost, instead of for a profit,

as the customer service corporations do.

On the surface, as I have said, there would appear to be nothing the utility companies could complain about with respect to this service. Unfortunately, however, in practice it may not be so good for their public relations. The average customer knows very little about the law. It is natural for him to think it is the company's duty to check up on his business from time to time to see that he is getting the lowest rate possible.

EVEN if the customer knew the law to be otherwise he would think the company was hiding behind a technicality in order to extract as much money as possible from him. He would not stop to consider the great expense which would be entailed on the company and consequently upon the company's customers as a whole if the company, and not the customer, were required to do the checking on the customer's business.

That being the ordinary mental attitude of the customer, the damage these service organizations may do to the utility companies lies in the fact that they place the already precarious state of public utility relations at the mercy of bands of solicitors who are apt to leave in their wake a deeply rooted conviction in the minds of their clients that the utilities are—to be most charitable—not to be trusted.

One would say offhand that the danger to the companies from this source is serious enough to warrant prompt action by the utilities; and that there should be no doubt as to what that action should be; that the utilities must either destroy the financial

PUBLIC UTILITIES FORTNIGHTLY

provender upon which these companies feed or leave to them the job of continuously stirring up bad feeling against the utilities.

Why, it might be asked, should the existence of an outside organization be necessary to check up on a customer's service conditions? One might easily reason that the very fact that such organizations exist indicates that there must be something wrong somewhere and that probably the utilities are to blame for it.

WHY then don't the utilities get busy and remedy this evil?

The remedy on the surface seems to be very simple. Why do the utilities not give voluntary expert advice to their patrons as to the lowest available rates in their schedules for their particular service? To the average person it would seem that there is nothing the utility customers' associations set up to do *for pay* that the utility companies cannot do for their own customers; and that if they would do it, these outside organizations would vanish over night.

If the companies should adopt such a policy, they might occasionally send out a letter like this:

Dear Mr. So and So:

This is to advise you that we have investigated at our own expense your service practices and find that you are taking service under schedule 6A whereas you

are qualified to receive service under schedule 10B. This change we estimate would save you about \$200 during the coming year based on your last year's billing. If you give us authority to change your contract in accordance with this suggestion, we shall be glad to send you a check for \$18 which we estimate is the amount of excess on this month's bill.

THAT would undoubtedly be fine for the company so far as that particular customer were concerned; but unfortunately the statement in the letter would not be quite the truth. The investigation would not have been at the expense of the company but at the expense of all of the company's customers, because, if such an investigation is a legitimate undertaking by a utility company, it would be a legitimate operating expense; and legitimate operating expenses are chargeable to all of the customers. Dear Mr. So and So would be having most of the expense of checking his service requirements paid by the rest of the company's customers rather than by himself, notwithstanding the fact that Mr. So and So would be the sole beneficiary of that work.

That these investigations are expensive is apparent from the fact that the outside organizations *charge a substantial sum* for this work whether the customer gets any benefit or not. However, it would seem that the utilities should make every reasonable effort, as many of them do, to see that



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PUBLIC UTILITIES FORTNIGHTLY

their customers are on the right schedules. By reasonable effort I mean that the utilities should go as far as they can without imposing an unduly heavy burden of the cost of investigations upon customers whose service conditions do not need to be investigated, and who should not be required to pay for investigations from which they can derive no possible benefit.

IN addition to that, if the expense of checking up on individual installations and use should not be a

proper charge against the rest of the customers, the company might agree to do this in all cases where the customers, unable to do it themselves, were willing to pay its reasonable cost.

The companies which are, of course, well equipped for that work, could probably perform it cheaper for the customer than an outside organization could.

Anyway it is up to the utilities, if they wish for good customer relations, at least to see that their customers understand this particular service problem.



Handy Phrases for Our Politicians

Gangs of financial pirates.

Weasel words of private interests.

Invisible influence of financial magnates.

Looting dignified by the agony of the people.

Greed elevated to the rank of patriotism.

Gouging of this government by private combines.

Sinister figure of the profiteer at his ghoulish task.

Free ourselves from the domination of the profiteer.

Sordid profiteering translated by the alchemy of politics into glowing deeds of patriotism.

Financial masters of Wall Street.

The giant bows his neck to the yoke.

Servile worshipping of private interests.

Guilty of a surrender to private interests.

Free our country from degrading servitude.

Manacles and gyves on the wrists of our government.

This beautiful compound which cements us together in the bonds of common brotherhood.

Uncle Sam—a Samson delivered into the hands of the Philistines—a brawny Gulliver snared by the Lilliputians.

Remarkable Remarks

"There never was in the world two opinions alike."

—MONTAIGNE

HUGH S. JOHNSON
National Recovery Administrator.

"You cannot enforce a law like NRA with penalties and policemen."

OGDEN L. MILLS
Former Secretary of the Treasury.

"The United States is to be transformed into a sort of Spain of the Sixteenth Century."

OSWALD GARRISON VILLARD
Contributing Editor, The Nation.

"The Roosevelt administration needs to get together and let its right hand know what its left hand is doing."

HAROLD MCGUGIN
U. S. Representative from Kansas.

"The business of this country is either all going to be privately owned and operated or all nationally owned and operated."

FRANCIS M. LAW
President, American Bankers Association.

"The surest proof that recovery is well under way is seen in the fact that criticism and complaint from many quarters is being heard."

DAVID E. LILIENTHAL
Director, Tennessee Valley Authority.

"To avoid duplication of facilities, to avoid territorial competition, to buy property at fair prices, are cardinal policies of the Tennessee Valley Authority."

HENRY A. WALLACE
Secretary of Agriculture.

"I believe there is a middle course by which we can shake off the leadership of discredited capitalists without committing ourselves to the follies of the hell-raisers."

BERTRAND H. SNELL
U. S. Representative from New York.

"The New Deal's experimental efforts to put business in a strait-jacket and make the American farmer do a goose-step at the behest of government obviously are on the way to abandonment."

WENDELL L. WILLKIE
President, The Commonwealth & Southern Corporation.

"Private operation of our electric utilities has been economical to the consumer. Between 1913 and 1933 the rate for electric energy declined more than 22 per cent, whereas during the same period the cost of living increased 28 per cent."



How Uncle Sam's Scientists Are Serving Utility Regulation

The practical help which the electric, gas, and street railway corporations, utility associations, and the state commissions are receiving from the Bureau of Standards in the development of codes, formulas, standardized equipment, and approved practices.

By WILLIAM ATHERTON DU PUY

TWENTY years ago a workman on an electric transmission line out in Wisconsin threw a rope over the wire and, despite the fact that rope is ordinarily a nonconductor of electricity, he received a shock through it which killed him.

Investigation showed that this rope had a wire through the center of it to lend it strength. It was the presence of this wire that was responsible for the lineman's death. It appears, however, that he did not die in vain for his case was brought to the attention of Congress and the result was that a fund was provided which led to an extensive study by the National Bureau of Standards and the development of a National Electrical Safety Code which by now may have saved thousands of lives.

THE National Bureau of Standards, an agency of the Federal government entirely aloof from power

producing and distributing companies as well as municipal and state governments, occupied a favorable position for making a study that might lead to the establishment of a code. It could gather information from all sources, analyze and compare practices, exercise judgment as to what had shown itself best practice in most communities. It set about doing just this. It had not been prosecuting its study for long until it had set up a code which, among other things, provided rules for the installation and maintenance of machinery, switchboards, and wiring in central stations and substations; rules for the construction and maintenance of overhead and underground lines for the transmission and distribution of electrical energy and intelligence; rules for the installation and maintenance of electrical apparatus and wiring in factories, residences, and wherever electricity is utilized for light, heat,

PUBLIC UTILITIES FORTNIGHTLY

or power, and rules to be observed by employees in the operation of electrical equipment and lines.

This code came gradually and voluntarily to be adopted, with or without modification, by operating companies. Municipal and state commissions examined it carefully and have tended to recommend its use by the utilities under their jurisdiction. It has come to be almost universally accepted.

THIS was the beginning of aid by the Federal government to the public utility problem.

Having got into the field other possibilities suggested themselves. There was the matter of a steady current that would cause electric lights to glow constantly at the desired degree of brightness instead of now dazzling the beholder and now fading redly away. Standards for the service should be set up and maintained. When long lines begin to lose their vigor they should be resuscitated by the introduction of new current. Standards for electrical service were written after much consultation with public service commissions and the engineers of operating companies. They were the result of observation of the best practice as it was found. They have gradually come into general use.

THE meter which provides the basis for the monthly bill is a matter of direct interest to all the current-using public. There are innumerable other elements to be considered, running all the way up to the specifications for a laboratory to be maintained by a state commission. The National Bureau of Standards was in

a favorable position for gathering information from the whole field. The facts were gathered and the best everywhere was made available to all who wanted to use it. The information thus gathered might, of course, be augmented from the stores of knowledge being developed by great laboratories. Keeping in touch with these offered possibilities to the industries.

VITAL problems constantly arose.

There was, for example, the menace of electrolysis which bred conflict between fellow public service groups. Much electric current, for example, spilled from the rails of street car systems in finding its way in completed circuits back to the point of its generation. The ground itself is a conductor but a gas pipe is better and the current travels by the easiest route. The gas companies would have no objection to electric currents scurrying along their pipe lines were it not for the fact that, when they jumped off, they nicked the pipe. At the points of departure they cause an action which gradually breaks down the pipe. In the end it goes to pieces and no longer serves the purpose of conveying gas from one place to another.

It is shown in certain instances that this deterioration of gas pipes may be directly chargeable to electricity released by power-using companies. The gas companies may hold them responsible for the damage done. Electricity in the ground with one origin and another may cause much damage. Water pipes and cable sheaths are additional sufferers.

What, both parties to such a situa-

PUBLIC UTILITIES FORTNIGHTLY

tion may ask, is to be done about it?

First the facts were to be procured. Careful surveys of a number of cities to determine just what was happening underground have been made. Usually the National Bureau of Standards, the interested parties, and the local and state commissions have co-operated in these surveys. When the damage has been found and measured ways have been sought to mitigate the injury. Much progress has been made along this line but much is yet to be done.

THIS vital study is just coming into full bloom. It has extended already to soil corrosions in general which themselves are caused by electrical action. Soil corrosion of buried pipe has increased in importance since the development of the rapid growth in the long-distance transmission of natural gas as in the case of the 24-inch lines that run 1,000 miles from Amarillo, Texas, to Chicago. Certain soils, it has been found, are much more corrosive than others and it is often possible so to route a pipe line as to avoid areas that will be particularly hard on them. Experiments are being tried with various coatings for the protection of buried pipe but, since years are required in the determination of an experiment, results are not yet available. The

Bureau has various pipes, protected by various coatings, buried under varying conditions. It digs up these pipes from time to time for examination but results lie with the future since it is endurance that lasts through the years that is of importance.

THE Bureau has a division of simplified practice. Its business is to lead manufacturers to produce only the varieties of their products that are necessary. If the public is to consume 1,000,000 rat traps, for example, it argues that those rat traps can be manufactured more cheaply and sold more cheaply if they are put out in three types than if they are put out in thirty types. It, therefore, asks the rat trap manufacturers to agree on the production of but three types. So is the rat trap business simplified.

The Bureau, the gas industry, and the public service commissions have long found that they had certain problems in common and have worked together toward the solution of those problems. There was, for example, the early question of candlepower as a measure of light. In practice there was a wide diversity as to what constituted candlepower. There was much difficulty in writing specifications for a candle that would be acceptable as the standard of this



QUOTE *"THE Bureau, the gas industry, and the public service commissions have long found that they had certain problems in common and have worked together toward the solution of those problems. There was, for example, the early question of candlepower as a measure of light. In practice there was a wide diversity as to what constituted candlepower."*

PUBLIC UTILITIES FORTNIGHTLY

measure. When a lamp was considered there was equal difficulty in arriving at agreement as to the wick and the oil to be burned. Had it been possible to do this the fact still remained that humidity, temperature, and barometer would affect the amount of light given off by a prescribed lamp.

THE utility industries have considered the possibilities that lie in the standardization of many of their appliances. There has been much talk, for example, of arriving at conclusions looking to standard pole hardware. An examination into the Pacific coast situation alone revealed the fact that nine companies in that area were using eight different sizes of an item so simple as the flat brace to the cross arm. Eight varieties of lag screws were being used, while several different weights and lengths of the steps that are driven into the poles that they may be climbed. If all the pole steps and arm braces were alike, it is argued, they would be cheaper, more interchangeable, and better in every way. The Bureau proffers its aid in bringing about such simplifications.

Over a dozen years ago the mayor of Baltimore became much alarmed because of the frequency of death through gas asphyxiation in that city. Forty-eight persons, not counting suicides, had been overcome by gas, five of them had died and thirteen had been saved only by the application of prompt methods of resuscitation. The National Bureau of Standards was asked to participate in an investigation to determine the causes of these deaths and a method of preventing them.

It was found that the produc-

tion of carbon monoxide gas comes from incomplete combustion which is likely to be due to improper appliances or to misuse of appliances. Two of these cases were in Baltimore. For example:

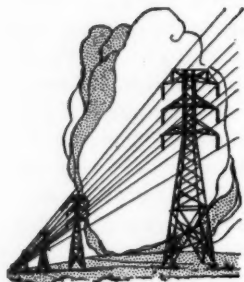
In one case the user of a gas water heater figured that if he placed a cap over its vent he would conserve its capacity to heat the water. He applied his theory and the heater, without its proper draft, produced carbon monoxide and the result was a tragedy.

In the other case which happened inadvertently on Christmas Day, two victims were found dead in bed in a room in which a gas heater was in use. The coroner was unable to find anything wrong in the method in which this gas heater was being operated. A more careful examination showed that the slits that admitted the air to the burner had become clogged, that the combustion was incomplete and that, as a consequence, carbon monoxide was produced.

THE Bureau's investigators arrived at the conclusion that these and similar accidents were largely due to improperly designed and inadequately inspected appliances. They stated that it was imperative that manufacturers of appliances seek to correct improper designs and that the gas industry join with them in a campaign to decrease such accidents. This was the start of a campaign that has resulted in finding the facts and in the steady extension of application of lessons that they teach.

THE entry of the National Bureau of Standards into this field two decades ago offered certain advan-

The Trend toward Economics of Operation Through Standardized Appliances



"THE utility industries have considered the possibilities that lie in the standardization of many of their appliances. There has been much talk, for example, of arriving at conclusions looking to standard pole hardware. An examination into the Pacific coast situation alone revealed the fact that nine companies in that area were using eight different sizes of an item so simple as the flat brace to the cross arm."

tages. The Bureau's logical approach in this field, again, was to find out what was being done in many communities, compare the results, form an opinion as to the best practice. Provisionally, at least, the Bureau decided it would be wise to adopt a group of seasoned carbon filament electric lamps, carefully compared with the standards of other countries, as the standard of light by which the unit candlepower would be maintained as the national standard.

The latest achievement of the Bureau is the perfecting a standard of a light based upon the melting point of platinum and the radiation from a hollow inclosure. This has been provisionally adopted as a new international standard of light.

WHEN the public utilities commissions first began coming into existence their chief interest was railroads. Naturally it came to pass that their technical staffs were largely made up of specialists whose *forte* was railroads. When such public utilities as gas began to fall in their laps

they were not as well prepared to handle its problems as might have been hoped. Gas at first was much used for lighting purposes and candle power was of large importance. When electric lights came into general use gas ceased to be of importance as an illuminant and the heat units it contained became the important factor. One gas might have 500 B.T.U. per cubic foot (the generally accepted measure), another might have 900, and yet another might have 1,200. Coal processed in different ways gives gas, coal tar, and coke in varying proportions. The coke, treated with steam, produces water gas of a still different composition and heating value. Steam and oil in such areas as the Pacific coast yield gas of yet another heat unit value. It was important to the producer, to the commission, and to the consumer to know about these gases. Gases, as a matter of fact, are almost as diverse in their makeups as are soils, ores, or the population of New York city. It is important, therefore, when gas is sold by the cubic foot to consider the

PUBLIC UTILITIES FORTNIGHTLY

potential heat in a cubic foot. Gases may be taken apart as is a sample of ore when it is assayed in a laboratory. The theory of gas analysis is comparatively simple but the methods of arriving at it are many and varied. One of the contributions of the Bureau of Standards has been a study of methods of gas analysis and a preparation of recommendations as to which are best.

THE National Bureau of Standards makes studies and attempts to say what is recognized good practice. A gas line may lead four miles out B street and maintain a pressure that, at three o'clock P. M. will be quite uniform all the way. At five o'clock, however, six hundred housewives along the line begin cooking dinner. The pressure is very likely to get pretty low out toward the end of the line if the line is too small to supply this number of customers. If it is sufficiently intensified to carry through to the end it will be abnormally high close to the plant.

The real correction for this trouble would be to replace the lines which are too small by some of adequate size. There are methods by which this pressure may be kept quite uniform. Cross mains may be put in out toward the end of the line or at any specific intervals, may tie into the depleted lines and pep them up. It is possible to maintain quite even pressures—possible but expensive. In the end, of course, the consumer must bear the expense load. The question, therefore, becomes one of just how far it is advisable to carry this endeavor to maintain uniform pressure. The companies, the American Gas Association,

the National Bureau of Standards, have given this problem much study. The Bureau has certain advantages in securing information as to recognized good practice from a great number of sources. It has made much valuable information available to those who want to make use of it.

THE meter in the basement of the customer is his point of contact with the gas company and is of vital and dynamic importance because of its direct contact with the pocket nerve.

Gas meters are one of the chief sources of conflict in a restless and quarrelsome day and time. It may be that the gas meters' importance as a disturber of equanimity is much greater than as a measurer of bills due. It works in a way that is not so different from dipping liquid out by the bucketsful and counting them. Gas meters sometimes but not often count more than they deliver. When they are examined and it is found that they register too high, the customer has been defrauded. How much nobody can tell. Is he entitled to a refund and how much? When the gas meter is examined it may be found that it has dipped out more bucketsful or bigger bucketsful than it has counted. Such is the construction of the meter that this is much more likely to happen than the reverse. The customer has received more gas than has appeared on his bill. Should the company attempt to collect additional fees and how much?

These again are delicate questions on which the Bureau has attempted to gather information as to the best practice which it has made available

PUBLIC UTILITIES FORTNIGHTLY

to the public, the gas manufacturers, and the public utility corporations.

YET the problem of them all upon which the National Bureau of Standards has attempted to throw a helpful light, the problem which probably ranks them all in utilitarian value, is that of gas utilization. Which of the appliances on the market, it wants to know, is safest and gets the most value out of a quarter dropped in a gas meter. One burner, for example, may boil the coffee with half the gas that would be required if another burner was used. Which is the appliance that best meets the requirements of different gases, with different heating quantities, at different pressures? Fundamental to this problem is the determination of specifications for appliances that will best meet the multitudinous and divergent situations that constantly arise.

The Bureau was the first agency in this country to make a comprehensive study of the relation between the details of design of appliances and their performance with respect to both safety and efficiency. The Bureau's reports on this subject have been extensively used by manufacturers in the improvement of their products, and the interest created by its investigations played an important part in the establishment of the laboratory of

the American Gas Association, in which practically all models of commercial appliances are now tested for safety and efficiency. The Bureau coöperated closely with the A. G. A. laboratory in the development of the specifications and methods of testing employed in this work which has led to a great improvement in the appliances available for use.

THE coöperation of the National Bureau of Standards with public service agencies contacts at a thousand points. The test of materials used by the railway systems is in itself a large undertaking. Detection of the flaws in rails is an example in point. The contribution of the Bureau toward the dialing of telephone numbers is a story in itself. The elevator, which more and more is coming to be regarded as a public utility, which in New York carries more people than the street cars and subways, has been carefully studied at the Bureau. It has an experimental elevator which automatically records its own functioning. The proper development of the interlock, a device which makes it impossible to move the elevator except when every detail of its functioning is in order, the Bureau says, quite sensationallly, would save 73 per cent of the fatal accidents due to elevators.

IN the early days of public service commission regulation of utilities, fact finding was the primary object sought. Now, more and more, commissions have come to initiate rate proceedings and to prosecute them as well as to judge them. This problem will become of enormous importance if regulation is greatly extended to all business enterprises. Extended too far, it will kill individual initiative and so strait-jacket management that it can barely function.

—FLOYD L. CARLISLE,
Chairman of the Board,
Consolidated Gas Co. of New York.

What Others Think

The Lawyers Check Up on Utility Regulation

A FRENCH writer many years ago extolled the benefits of the American brand of democratic government by comparing our biennial elections for state and Federal offices to "periodic inventories, whereby the people may pass judgment upon what has been accomplished and discipline those public servants who have failed to accomplish enough."

True as this statement may be with regard to the abstract power lying in the hands of the electorate to make periodic adjustments in our governmental machinery, it is also unfortunately true that the voters are not prepared for these "inventories" by expert reports of unbiased auditors of the affairs of governmental business. In the well-run private business, an outside and disinterested accountant is usually called in to go over the affairs of the company and make a report thereon. It is on the basis of such a report that private business operators determine their new policies.

But who ever heard of the American people—shareholders all in the business of the state and Federal governments—calling in an outside appraiser to make an auditor's report? On the contrary, American voters usually get two extremely opposite reports upon the affairs of their government during the election campaign period. One contains the views of the "outs" who want to get "in" and the other the views of the "ins" who want to stay in.

PERHAPS a comprehensive independent "auditor's report" on the state of government affairs for public benefit is just impossible. About the nearest approach to it that commands any substantial public attention is the vari-

ous discussions the lawyers have when they assemble in annual conventions of the American Bar Association. Here gather lawyers and judges from all over the country of all stripes of personal opinion and personal affiliation. They listen to reports of various specialized committees which are usually drafted in the manner of a detached view of trends supplemented occasionally by specific recommendations.

The report of the Special Committee on State and Federal Functions in the Regulation of Electric Utilities is of more than passing interest, not only by reason of the commanding position which the power utility issue has taken in governmental programs during the last year, but also by reason of the cautious and thorough spirit of its composition. Chairman Lowell M. Greenlaw and his associates have taken care to emphasize trends rather than particular happenings which are individually subject to such varied explanation. Concerning these current trends in Federal regulation, the report states:

During the past year some measure of Federal control has been manifested along these divergent lines: (a) Request of co-operation by the utilities in the national recovery program by means of a code of fair competition and adherence meanwhile to the terms of the President's Reemployment Agreement; (b) Imposition of special taxes upon the revenues of electric utilities; (c) Additional investigations supplementing those already in motion by the Federal Trade Commission; (d) Limitation of the right of utilities subject to state regulation to access to the Federal courts; (e) Initiation of Federal power projects in territories already developed by existing utilities; (f) Promotion of municipal competition with existing plants through grants from the Public Works Administration; (g) Introduction through Federal and municipal competition of the "yardstick" method of determining rates, having the

PUBLIC UTILITIES FORTNIGHTLY

effect of substituting this method for the orderly processes of rate regulation.

Whatever may be the merit of any of these steps, it is obvious that together they fail to present any consistent plan for permanent regulation by the Federal government. On the one hand, electrical utilities are viewed as an established industry upon whose organization and resources the government is entitled to call through the medium of taxation and codification in time of economic emergency. On the other hand, the utilities are viewed as a phase of private enterprise to be curbed, restricted, and in many aspects disabled by the abrupt entry of the government into a program of public works the effect of which is to place both the Federal government and municipalities aided by it into direct competition with existing utilities. Similarly, while the administrative agencies of the Federal government endeavor to extend their spheres into the activities of electric utilities, the jurisdiction of the Federal courts to review the regulation by individual states is curbed to an unprecedented extent. Finally, while the jurisdiction of the Federal government along these various lines is asserted, no attempt is made to co-ordinate Federal activity with existing regulation by individual states. The result of this lack of co-ordination has not yet been fully experienced, but a harbinger of the chaotic jurisdictional situation which may be expected is the recent holding of the Alabama commission that the Tennessee Valley Authority is subject to its jurisdiction.

These various and diversified spheres of Federal control are as yet experimental, and none of the underlying constitutional questions has been decided. Whether the specific powers under which the national government must operate will be deemed elastic enough to authorize extension of Federal control over electric utilities, which in large measure are still local undertakings, is a problem which sooner or later must arise in a concrete setting. This report does not attempt to consider or to indicate the solution of such questions. We merely recite the various phenomena of regulation out of which such questions may be expected to arise.

THE report goes on to describe various enactments of the 73rd Congress affecting utilities, such as the Communications Act, the Johnson Bill, the various investigatory and regulatory activities of the administrative branch of the Federal government, and the various Federal and non-Federal power projects. The report is skeptical about

the validity of the so-called "yardstick" rates in the Tennessee valley, stating:

There is no available information as to the rate or amount of depreciation, taxes, interest, etc., used by the government in arriving at these rates. In due course of time, no doubt, these figures and others will be given out so that a more fair comparison may be drawn between the government generation and transmission of electrical energy and that of a private utility. If reasonable depreciation, comparable taxes, the going interest rate, line losses, and all of the other items of expense incurred by private utilities are used in arriving at the rates to be charged for the government power, then the yardstick experiment will be of great interest to the people at large. If all of these expenses are not included in arriving at such rates, then the operation becomes a matter of competition at government expense which could not be met by privately owned utilities.

Again, referring to the so-called model contract between TVA and the city of Tupelo, Miss., for the supply of Muscle Shoals power to the latter's distribution system, the report states:

The rates named in this standard form of contract are much lower than the average of corresponding rates in effect throughout the United States. Whether or not they are predicated upon a cost basis, they show conclusively that the United States government through the Tennessee Valley Authority is in active and substantial competition with privately owned electric utilities. Sooner or later the true facts and costs upon which this experiment is based may develop. Until that time, no conclusion as to the value to be derived from the experiment can be made.

The report concludes with a review of regulatory questions raised by important court and commission decisions within the last year and with the exception of one or two minor slips, such as the erroneous statement that seventeen state commissions have jurisdiction over municipal plants, is both accurate and interesting.

FAR more outspoken in its criticism of the Federal power rate yardstick was the address of the chairman of the public utilities section of the Bar Association, delivered August 27th by Henry G. Wells, a member of the Massachusetts Department of Public Utilities.

PUBLIC UTILITIES FORTNIGHTLY



New Masses

Frank Webb

LET 'EM EAT KILOWATTS

Commissioner Wells found fault with the administration for establishing publicly owned power plants in areas now served by private corporations and wondered what would be left to measure with the yardstick after the various governmental agencies have finished their program of putting the Federal government in the power business. He believed that the government should have bought out existing power properties in Muscle Shoals and Columbia river areas instead of erecting new plants in these districts. He stated:

But if the government must go into competition the least that could be expected of it would be fair competition. Instead, while ostensibly launched on a crusade to do away with unfair competition, the government by its own acts creates unfair competition. It attempts to force the industry into compliance with code provisions which it does not itself live up to. It strives to raise prices of materials and labor in use in the industry and when the industry cooperates to that end while not looking for praise it is met with accumulated and persistent abuse and a demand for lower prices on its own commodity.

Additional and special taxes are levied on the industry and the government com-

PUBLIC UTILITIES FORTNIGHTLY

petitors are specifically exempt from such taxes. And the revenue from these as well as from the other taxes paid by the industry and by the owners of the industry on their holdings is used in part to finance government competition.

In the area of the Muscle Shoals development only one half of the available capacity of existing plants was being used and only one third of such capacity was being used in the Columbia river area where two other large government plants are being constructed.

DEPLORING the fact that the government was planning the erection of additional power plants, Commissioner Wells declared that from the most reliable statistics available it was indicated that the power industry in the country as a whole operated at an average of 32.2 per cent capacity in 1929 and only 26.3 per cent in 1932. The commissioner admitted that there had been flagrant abuses in the operation of the power industry but maintained that had been confined mostly to holding companies. Holding companies, he said, could be curbed by proper legislation and regulation without destroying the underlying operating company. He expressed the opinion, however, that if the present public utility program of the Federal government were carried out it would result in the destruction of the entire public utility industry in the United States.

Besides the individual investor in public utility stocks, the Massachusetts commissioner declared, every insurance policy holder, every bank depositor, all persons interested in schools, colleges, churches, hospitals, welfare institutions, and fraternal organizations that hold investments in public utility securities would be concerned. He estimated that more than one half of the entire population would be directly or indirectly affected by the situation.

The commissioner saw only three possible results from the establishment of publicly owned power plants in areas now served by private corporations, stating:

The market must expand tremendously to absorb such a large increased capacity

without detriment to the private companies. That would seem to be impossible. The other two possibilities are that the private plants will be forced out of business or that the public plants will fail. The latter will never be allowed to happen no matter what may be the resulting deficits and burdens on the taxpayers. No, the "yardstick" is more like the ruler of olden schoolboy days except that it is to be applied alike to the well behaved and the incorrigible.

Propaganda of misleading nature unsupported by evidence is constantly being circulated to the detriment of the private power industry, Commissioner Wells declared. He defended the right of private corporations to state their doctrines from public platforms, to teach them in schools and colleges, and to circulate them in newspapers and magazines the same as the advocates of public ownership. The right of free speech guaranteed by the Constitution, he contended, should not be lost either by law or by political intimidation.

ANOTHER state commissioner who addressed the section of public utility law of the American Bar Association was Chairman Richard T. Higgins of the Connecticut Public Utilities Commission. Commissioner Higgins confined his remarks to an analysis of recent regulatory developments of particular interest to the state commissions. He found that the law of public utility regulation, particularly with respect to rate making, is undergoing considerable revision as evidenced by developments during the last year. He stated:

Recent decisions of the United States Supreme Court seem to indicate that case law is undergoing a material change respecting the establishment of public utility rates. There appears to be a widening and upholding of commission discretion by looking through the form to the substance of their decisions. While fair present value rather than original cost remains the essence of the rate base, the weight to be given the various indices of fair value in determining the rate base is changing in favor of original cost instead of reproduction cost, and "going concern value" and "cost of financing" are being eliminated as intangible elements of property. This

PUBLIC UTILITIES FORTNIGHTLY

inference is drawn from recent decisions, particularly the Los Angeles Electric Corporation Case decided May, 1933; Clark's Ferry Bridge Company v. Public Service Commission of Pennsylvania decided in 1934; Dayton Power and Light Company v. Public Utilities Commission of Ohio decided also in 1934; and other recent United States Supreme Court decisions. The thought expressed in the dissenting opinions of Justice Holmes and Brandeis, during the past decade, is today finding favor.

COMMISSIONER Higgins regretted that formal rate investigations are so protracted and expensive and suggested regulation by conference between state commissions and utilities as an effective way of avoiding such litigation. On the subject of holding companies, Commissioner Higgins stated:

Holding companies, to my mind, may have a proper and legitimate place in connection with the financing and economical operation of operating utility companies. The unregulated and uncontrolled activities of holding companies, however, particularly in connection with the financing of their subsidiary companies, may result, and in certain cases have resulted disastrously for the operating companies and their patrons. There are some marked disadvantages in connection with holding company control, even though well and honestly managed. It takes away the spirit of community interest as the officers having any degree of corporate control are usually far removed from the local activities of the operating company. It tends to militate against the important factor of good relations between the utility and its patrons and it creates the unfavorable condition of the commission's having to deal with local officers having no real authority. In the absence of government regulation of holding companies, operating companies and their patrons should be reasonably protected by a state commission having complete regulatory jurisdiction over the operating company, including the issuance of securities. Operating companies should not be permitted to loan funds to the parent or holding company without approval of the commission, and any management fees, interest, or other charges made by the holding company should, in every case, be carefully analyzed and passed upon by the regulatory commission. The official books, records, and accounts of a utility company engaged in intrastate business should be kept in the state and at all times subject to the inspection and jurisdiction of the state commission.

Commissioner Higgins declared that his personal opposition to government ownership of all utilities was based on grounds that it was not logical to expect government operation under political management to be any more successful or satisfactory to the public than private operation of the utility industry, even assuming complete failure of governmental regulation of the latter. He said that it is an unsound and wasteful policy to have "a large part of the people engaged in watching and directing the other fellow."

SUPPORTING in detail the statement that case law of public utility regulation in the United States is undergoing change in the light of recent decisions was an interesting article by John L. Collins, of the Hartford, Conn., Bar, in the September issue of the *American Bar Association Journal*. Mr. Collins believes that the change will result in increasing the regulatory discretion of state commissions and said:

This change manifests itself essentially in a restoration of wide commission discretion in determining reasonable rates and a practice of looking through the form of the commission's order to the substance and sustaining it, if an examination and the weighing of the entire order shows no substantial injustice has been done to the utility company, although specific parts of the rate problem either may have been overlooked or not given the specific attention they were entitled to. I say a restoration of wide commission discretion because the frequent conflict between court and commissions in the last decade as to the proper concept of value and a fair rate of return in an era of rapidly rising prices often led the court, in the exercise of its power, to interpret the Federal Constitution, to closely restrict the exercise of the legislative function, as appears from some of the cases referred to below. Now, the legislative branch is restored to rank equal with the judicial and the court is not prone to interfere with the commission's decision unless a clear case of confiscation is made out.

In addition to outlining a very recent trend in court decisions away from strictly replacement cost and in the direction of original cost as a basis

PUBLIC UTILITIES FORTNIGHTLY

for computing a utility rate base, Mr. Collins finds that "going concern value, as the stepchild of good will, appears destined to the same fate, but it seems fair to state that a rate base established in the interim should include something for going concern value if reached substantially upon historical cost." If a rate base has been established substantially upon reproduction cost and reasonable allowances for overhead have been included, Mr. Collins believes that nothing need be added for going concern value in the light of recent decisions. The writer also believes that cost of financing is just about a dead issue as evidenced by three recent decisions dismissing it entirely as "conjectural."

He finds that the average rate of return allowed has shrunk from 8 to 6½ per cent during the depression period and believes that 6 per cent return is likely to be sustained by the highest court in the near future, which he thinks will bring us back to the rate of return regarded as reasonable in the pre-war period.

IN the field of operating expenses, particularly in the allowance for annual depreciation, Mr. Collins sees a great restoration of regulatory discretion in the state commission by the U. S. Supreme Court's decision in *Illinois Bell Teleph. Co. v. Lindheimer*, 3 P.U.R.(N.S.) 337. How should the state commissions exercise these restored powers so as to prevent any future recapture of them by Federal decisions? Mr. Collins gives the following interesting advice on the subject:

What safeguards should we follow to maintain intact our restored legislative discretion? First, it seems to me, that in all matters relating essentially to the rate base, we must not be too general in reaching our conclusions, expecting the court to look through the form to the substance of the whole subject matter in order to sustain

the commission. Second, while taking full account of excessive profits in the past, still establish a rate of return that will not deter capital from resuming its function when the time for further plant expansion comes again, remembering that adequacy of service is a cardinal principle of regulation and that it cannot be rendered without the utility keeping abreast of the developments in the arts, nor service extended to new fields without capital. Third, in determining operating expenses, we must bear in mind that prices for labor and material are already indirectly fixed in part through code operation, that prices are rising, and that the tax burden on the industry is ever increasing. Fourth, in the entire field of regulation, while seeing that unjust enrichment does not take place, try to keep ourselves within our proper sphere and not invade the function of management nor oppress the industry so that private initiative, which has made our public utility industry as a whole outstanding in the world for quality of service and reasonableness of cost, shall not be stifled and advancement in the material comforts of life shall not be lost to the nation.

These decisions of our Supreme Court bear testimony to the fact that the law is not static but on the contrary dynamic in its force and, as a true social science, arises to the occasion of the changed economic and social conditions of our country and molds the law to conform with these changes.

—F. X. W.

REPORT of the Special Committee on State and Federal Functions in the Regulation of Electric Utilities. Presented at the Annual Meeting of the American Bar Association. Milwaukee, Wis., August 27, 28, 1934.

ADDRESS by Henry G. Wells. Delivered at Annual Meeting of the American Bar Association, Milwaukee, Wis., August 27, 28, 1934.

REGULATION OF PUBLIC UTILITIES. An address before the Section of Public Utility Law of the American Bar Association by Richard T. Higgins. August 28, 1934.

TREND OF U. S. SUPREME COURT DECISIONS AFFECTING RATES OF PUBLIC UTILITIES. By John L. Collins. *American Bar Association Journal*. September, 1934.

“MAKING IT HARD FOR THE REGULATORY COMMISSIONS,” by George Otis Smith, and the first instalment of “THE FORGOTTEN MAN IN THE DEPRECIATION CONTROVERSY,” by Luther R. Nash, coming in the next issue (October 25, 1934).

Hydro, Hydro, Everywhere and Not a Drop to Waste

TAKING an approach similar to that used by Edward Bellamy in his celebrated description of a socialistic Utopia, "Looking Backward," a newspaperman, Paul Jarrett Kelly, has written an interesting visualization of the progress of power in the United States during the next thirty years under the title "Looking Back from 1964." In the approved Jules Verne-Buck Rogers manner, Mr. Kelly goes into a trance in front of his typewriter in this year of our Lord 1934 and projects himself into the future thirty years.

For purposes of this article, Mr. Kelly has kept a single-track mind concerned only with power development and its immediate incidents. He does not, upon awakening in 1964 before an "electrified keyboard which instantly reproduces the written lines in metallic slugs in newspaper offices in a hundred distant cities," act like one would expect a newspaper man to act under normal circumstances. He does not rush right out to find out who is the President of the United States, the Queen of Hollywood, or the leader of the American Baseball League. He does not even describe whether our posterity still have repeal or what kind of stuff they are drinking in 1964. No, Mr. Kelly is a very serious type of Rip Van Winkle. He wakes up with a burning curiosity only for power and he certainly finds plenty of it.

Here are some of the larger rivers that Mr. Kelly finds so completely under hydroelectric development that "every drop of water could be made to do its duty": Mississippi, Ohio, Tennessee, Columbia, St. Lawrence, and Missouri. The author reflects whimsically upon the crude state of electrical development in 1894, the progress made up to 1914; the interconnection discovery era 1914-1924; the appliance distribution era, 1924-1934. He recalls that in 1914, the average customer use was 268 kilowatt hours which cost our

grandfathers \$8.30. Now in 1964, our average use is 3,000 kilowatt hours which costs us only \$2. We find out from Mr. Kelly that President Franklin Roosevelt's administration was the real force that started all this power development. We learn that during the Roosevelt administration the St. Lawrence Waterway Treaty was adopted and a "high dam" at Grand Coulee was approved.

HARD-PRESSED farmers will be interested to learn what good things are in store for their sons in 1964. Mr. Kelly says of the future farmer:

Electricity, he found, brought him cheap light and heat. Motors today have replaced other forms of power in pumping his water. Into his home came the washing machine, vacuum cleaner, automatic electric range, refrigerator, and other labor lighteners; the olden drudgery under which his womenfolk had suffered for centuries has vanished and smiles have replaced the weary lassitude when day is done.

In his hennery there are electrically heated incubators and hovers, electric egg testers, electric lamps in his water troughs to prevent water from freezing in wintertime.

In his dairy operations his cows are irradiated by violet rays, are milked by electrically operated machines; his butter is churned likewise; his ice cream freezer, milk tester, pasteurizer, milk cooler are all electric.

In his farmyard and barns and other buildings, there are fruit presses and cider mills, dehydrators, honey extractors, sausage stuffers, saws, wood splitters, lathes and grindstones, grain cutters and fodder choppers, hay balers, feed mixers, and grinders—all operated by power.

One would think that there would not be much else that Hiram could possibly want except superficial luxuries, such as automatic pipe smokers, or combination egg-and-wife beaters, but Mr. Kelly goes on to tell us that the farmer of the future will have his fields plowed, harrowed, seeded, weeded, harvested, and threshed by electricity. (There is no mention that farm products will be eaten by electricity.) We learn that

PUBLIC UTILITIES FORTNIGHTLY

because of these aids to efficiency, the farmer's "output and income have increased and prosperity has returned to him to stay; discontent has disappeared." Messrs. Wallace and Tugwell will doubtless be interested in this angle. Abundant power in 1964 has even solved the age-old farmer's problem of how to keep his gay young offspring down on the farm. "Instead of a youth urge away from the farm there is a scramble to stay."

WE are told that the problem of meeting "peak demands" and filling in unprofitable dips in power demand is solved by coördinating the operations of mouth-of-mine fuel generated steam plants with local fuel plants and the hydro output. The whole country is covered with such a network of interconnected transmission lines, capable of carrying power limitless distances without wasteful line losses, that power is passed around the country just like cake around the table. The "peaks" caused by Broadway theater lights is met by facilities not needed during the Rocky Mountain twilight period and a bright Saturday night in Los Angeles is lighted by power not needed for a "blue Sunday" morning in Massachusetts.

Another remarkable aspect of Mr. Kelly's vision of 1964 is the serene accord which he finds between private and public ownership advocates. Most present-day prognosticators believe either that the government ownership movement will go on until it absorbs all private power enterprise, or that it will fail so miserably that it will be abandoned for good. Not so Mr. Kelly.

He finds the politician and the stockholder joyfully working shoulder to shoulder in the vineyard of power production without even a yardstick in sight.

Speaking of 1964, Mr. Kelly says:

Our present great system of national electrical highways . . . was conceived by engineers whose experimental work was accomplished in laboratories financed by private capital; it was developed by a privately owned corporation whose activities are similar in some respects to the operations of our telephone and telegraph networks.

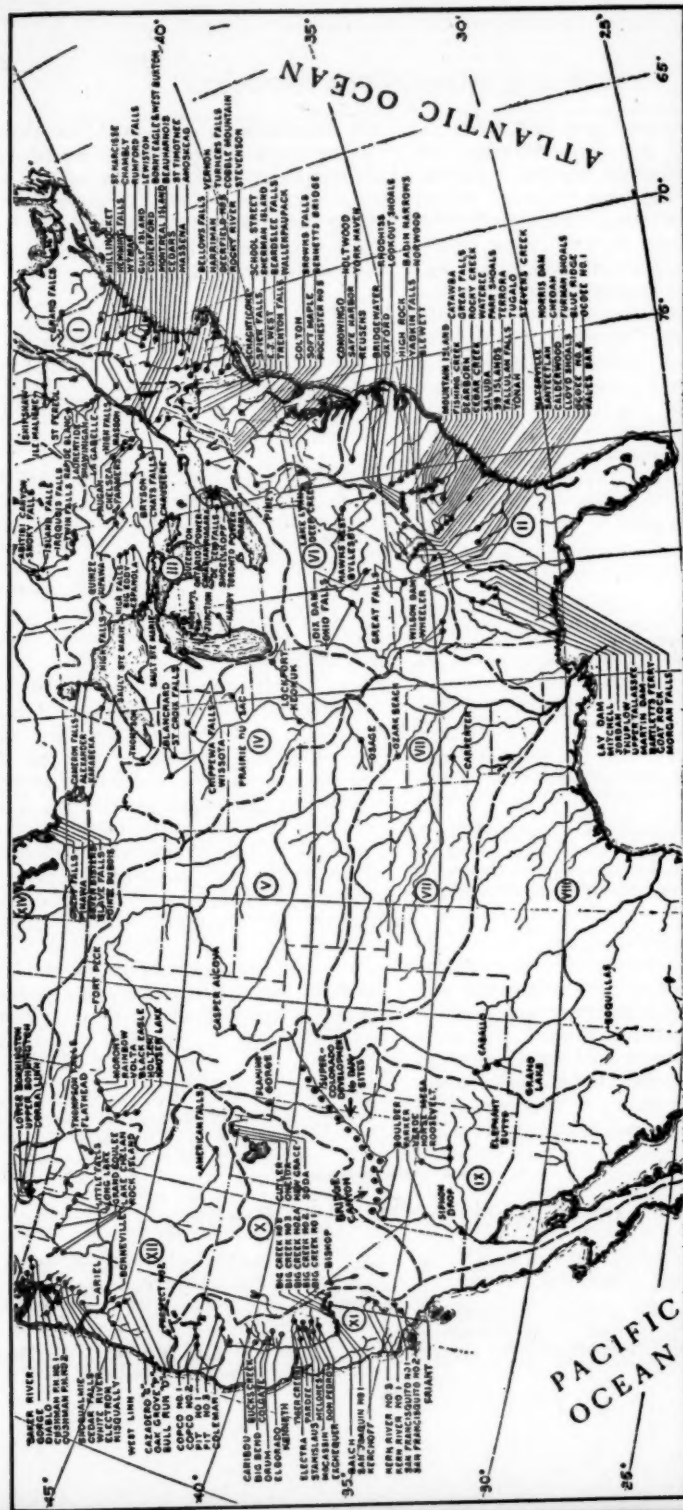
And, coördinating the resources, productive output, of both privately and governmentally owned or operated power plants, it has been successful to a remarkable degree, so much so that many of the governmental, and especially state, regulations and restrictions which at one time so hampered and harassed similar developments have been lifted.

Government supervision, of course, continues and is made necessary by the vast ramifications of the industry. But it is a more paternal supervision than that of olden days; its purpose mainly is that of conciliation, for in any organization composed of a multitude of smaller elements there is bound to be friction at one time or another. The active participation of government in business, a principle towards which we at one time seemed to be headed, however, now has given way to a far more salutatory arrangement, an amicable coöperation in which both government and business play their respective, predestined parts that the public in general might benefit.

OF course, our children have increased the efficiency of our national resources and increased the volume used with due regard to necessary conservation. A comparison of the two periods 1934 and 1964 is given in the accompanying table:

	1934	1964
Electric plants in operation	11,150	13,261
Kilowatt output per hour	35,460,000	91,540,000
Use in kilowatt hours	79,716,000,000	149,373,000,000
Number of customers	23,900,000	36,296,000
Money invested	\$12,670,000,000	\$32,869,887,528
Number of employers	244,600	526,000
Wages of employees	\$323,900,000	\$660,000,000
Tons of coal used	35,521,970	51,585,188
Gallons of oil used	7,871,000	12,205,100
Million feet of gas used	98,302	294,973
Miles of transmission lines	260,000	650,000

How Hydroelectric Power Map of U. S. Will Look in 1964



The above map, showing the progress of hydroelectric development in the United States in 1964, has been compiled from records of the United States Bureau of Reclamation, the United States Power Policy and Planning Commission, the files of the *Electrical World*, the Federal Power Commission, surveys of "Giant Power" made under the direction of Dr. Morris Llewellyn Cooke, reports of the United States Census Bureau and of the National Geological Survey. The map does not, could not, show all of the hydro-plants

now operating, for there are literally thousands of them; consequently it has been limited to plants of more than 20,000 horsepower output. They include projects both privately and publicly owned.

The Roman numerals in circles show how the country at large has been divided into administrative regions by the Federal Power Commission.

PUBLIC UTILITIES FORTNIGHTLY

Incidentally, coal use has been increased to 60 per cent efficiency and what doesn't happen to the black diamonds from the time they are mined until they are finally consumed in a hundred different forms! First 1,000,000 gallons a year of benzol are extracted for the benefit of the motorists. Coal gas, ammoniacal liquor, tar oils, and coke with numerous subproducts are produced in turn. Finally the stuff is burned in such a way that it furnishes more heat than the original ton would furnish in 1934. Scientists of 1964 estimate that a hundred billion dollars were wasted in the preceding fifty years because of failure to extract by-products from coal.

Mr. Kelly concludes his observations of 1964 as follows:

So what have we learned during this determined, all-inclusive effort to make use of the full advantages to which our trinity of great natural power resources—water, coal, and oil—entitled us?

Well, we have learned that Pinchot, Baruch, Meyer, Cooke, Bruere, Baum, and Bacon, among others, were right in their early insistence that our national future was inevitably, unequivocally bound up with the development of what we now call "Giant Power."

We have learned that Hart and Wells were right in their advocacy of decentralization of power, for through that decentralization we have achieved a great, better, national life.

He adds a word of the "future" to which our children and grandchildren will look in 1964. Scientists will still be "toying" with mercury vaporization to increase steam-generating efficiency, with solar ray and tidal power development, and with the possibilities of atomic and cosmic energy. The immediate objective is "volume, high-tension wire-

less transmission of power," whereby the populated centers of the world will tap the innermost resources of the remote Antarctic and the Dark Continent. When this "problem" is solved the following potential horsepower will be open to human usage:

Africa	190,000,000
Asia	71,000,000
Europe	56,000,000
North America	111,000,000
Oceania	17,000,000
South America	44,000,000
Total	489,000,000

MR. Kelly's imagination is matched only by his skilful and easy-flowing literary style. He makes the imagined marvels of the future seem so real that one becomes almost resentful when he picks up current newspapers and reads items about surplus power, surplus oil, and surplus grain. Life will certainly be easy in 1964. But then, on the other hand, mechanical superefficiency always brings new troubles with them. Remember the sad story, related in a similar vein by the Canadian humorist, Stephen Leacock, concerning the tragic death of a little baby boy in 1980 or thereabouts. Following a terrific explosion which literally blew the boy into small pieces, his grieving parents found that he had escaped his automatic electric nurse, crawled up on a synthetic table, and swallowed the contents of a pill box labeled "ONE HUNDRED COMPRESSED THANKSGIVING TURKEY DINNER TABLETS"!

—F. X. W.

LOOKING BACK FROM 1964. By Paul Jarrett Kelly. *The Sunday & Evening Star*. (Washington, D. C.) August 19-22, 1934.

Other Articles Worth Reading

A UTILITY "YARDSTICK" FOR THE EAST? *The Financial World*. September 5, 1934.

ELECTRICITY SUPPLY IN GREAT BRITAIN. By Melvin G. de Chazeau. *The Journal of Land & Public Utility Economics*. August, 1934.

FEDERAL HYDRO-ELECTRIC PROJECTS MENACE FUTURE OF COAL INDUSTRY. By George J. Leahy. *Mississippi Valley Lumberman*. August 31, 1934.

UNCLE SAM REVERSES HIMSELF. By David Lawrence. *Contact*. September, 1934.

The March of Events

Rail Reform Heads Slate for Next Congress

COMPREHENSIVE transportation legislation will be near the top of the administration's program for the coming session of Congress, it was indicated when President Roosevelt reviewed the transportation problem recently with Joseph B. Eastman, Federal Coordinator of Transportation.

Mr. Eastman, according to the *New York Herald Tribune*, said that the legislative program had not yet been completely formulated but that it would be "really comprehensive." He said that he was now working on two reports: one on necessary legislation and one on subsidies to all forms of transportation.

The Chamber of Commerce of the United States recently came to the aid of the nation's railroads, sharply criticizing present and past Federal treatment of the carriers, and calling for a hands-off policy by the government on railroad management, according to the *Associated Press*.

Henry I. Harriman, president of the Chamber, asserted in a statement that the ICC had so restricted rail earnings that the carriers were in critical financial need.

The pending application of the roads for a \$170,000,000 rate increase, he said, emphasizes "the stake of American business in the national transportation policies now under discussion."

Coincident with the formulation of administration plans for the rehabilitation of the railroads, Chairman Jesse H. Jones of the RFC told *The Wall Street Journal* that the RFC is prepared to advance unlimited funds for the reorganization of carriers along sound plans approved by the RFC, the ICC, and the Coordinator of Transportation.

Lilienthal Back from England

THE power development progress of the Federal government is expected to be materially influenced by the findings of David E. Lilienthal, director of power development of the TVA, who returned on the *Leviathan* recently with Llewellyn Evans, chief electrical engineer, after a visit to England to study the British "grid" system of electric transmission and the River Shannon hydroelectric project in Ireland.

Mr. Lilienthal, according to the *New York Herald Tribune*, declared that he found the

trip very helpful and most interesting, but declined to discuss his findings until he submitted a report and recommendations to the TVA and the National Power Policy Commission. He said that power development both in England and Ireland is making rapid strides with per capita consumption showing a remarkable increase.

Sets Minimum Bus Fares

MINIMUM bus fares over the New York-Chicago and New York-Washington routes were ordered by the National Recovery Administration, effective midnight, September 21st, according to *The New York Times*.

After a hearing June 7th, by the Motor Bus Code Authority to determine whether the minimum rates were below the "lowest reasonable cost of services rendered," the charges, as announced, were established to become effective June 30th, unless an appeal were made to the administrator. Such an appeal was made by the Nevin Atlantic Lines, the Nevin Transit, Inc., and the Nevin Western Lines, Inc., from all minimum rates.

This later was withdrawn except on fares for services between the following points: Chicago-Detroit; New York-Philadelphia; New York-Baltimore; New York-Washington; Philadelphia-Baltimore, and Philadelphia-Washington.

Administrator Johnson, however, denied the appeal for the lines and established the rates as set by the Code Authority.

Expects Approval of Seaway

THE St. Lawrence treaty will be resubmitted to the Senate in January and will be ratified so that construction work on the seaway can be begun next spring, Frank P. Walsh, chairman of the New York Power Authority, predicted recently after conferring with President Roosevelt, according to the *New York Herald Tribune*.

Mr. Walsh recently returned from conferences in the Middle West. He said:

"I reported to the President that within the last eight months the St. Lawrence public power and navigation project has been endorsed by the National Grange, the American Farm Bureau Federation, and the Farmers' Union. It has the militant backing of the governors of twenty states and the mayors

PUBLIC UTILITIES FORTNIGHTLY

of more than fifty cities, regardless of party. It also has received the indorsement of General Federation of Women's Clubs and of the league of Women Voters in New York and other states, awaiting formal action at the convention of the National League of Women Voters, which did so much to bring the Muscle Shoals project to completion."

Rates Cut by Montreal Utility

MONTREAL Light Heat & Power Consolidated recently announced its fifteenth voluntary reduction in electricity rates. The company's rate reduction policy has resulted in progressive decreases from 12½ cents per kilowatt hour to as low a rate in the new schedule as ½ cent per kilowatt hour in the comparatively short period between 1908 and 1934.

The rates for residential service follow:

Initial charge: Includes per customer expenses and consumption from 0 to 10 kilowatt hours (service charge and minimum bill, now in effect, to be discontinued), 59.4 cents per kilowatt hour.

Energy charge: Consumption from 11 to 70 kilowatt hours, 2.52 cents; 71 to 200 kilowatt hours, 1.8 cents; more than 201 kilowatt hours, 9 cents.

Taxes: Discriminatory taxes chargeable pro rata in municipalities where such taxes may be imposed.

These rates are net after deduction of 10 per cent discount on gross rates for payment within fifteen days.

One meter is used for all purposes, including lighting, heating, cooking, refrigeration, and household appliances.

Power Industry Weighs Defense

THE question whether the Edison Electric Institute should embark upon a national program for defense of the electric light and power industry is to be given early consideration by the board of trustees of that body, according to a statement in *The Wall Street Journal*.

A committee of six members of the board has been appointed to make recommendations early to the entire board on the future program of public relations.

Alabama

Sets Date for TVA Hearing

HUGH White, president of the public service commission, has announced that the hearing on the petition of the Alabama Power Company for approval of sale of \$1,000,000 worth of North Alabama property to the TVA would be set for October 23rd, according to the *Birmingham News*.

The property includes the municipal distribution systems at Athens and Belle Mina, transmission lines leading into Muscle Shoals, industrial customers outside Athens, and the site of the Joe Wheeler dam.

The original order of the commission approving the sale was voided by Judge Leon McCord, of Montgomery Circuit Court, September 4th, because the commission acted illegally in not giving thirty days' notice before holding the hearing for approval of the sale.

Meanwhile, the TVA has continued to op-

erate the property included in the first sale despite the court order voiding the sale, all parties concerned having agreed that the TVA continue to operate until a final settlement of the case was reached.

Street Car Fare Raised

THE Alabama Power Company has petitioned the public service commission for authority to revise its street car rates in and around Tuscaloosa by combining the two existing zones into one zone, according to the *Birmingham News*.

The new schedule of rates would increase the basic fare from 6 cents to 7 cents, with a monthly nontransferable permit to be sold for 35 cents, good for transfers throughout the month without any limit on the number of times for its use.

California

Taxi Franchise Backed

A RECOMMENDATION that the Yellow Cab Company be granted a 21-year franchise for operation of its taxicabs in Los Angeles,

now operated under a revocable permit, was adopted recently by the board of public utilities and transportation and sent to the city council for action.

At first the company had asked for an ex-

PUBLIC UTILITIES FORTNIGHTLY

clusive franchise, according to the *Los Angeles Times*, but later changed its application to ask for a nonexclusive grant, in the Los Angeles metropolitan area.

In exchange the company offered to improve its service, increase the pay of its drivers, provide better working conditions for them, reduce the amount of cruising in the congested district, never increase rates beyond those now existing, reduce rates 5 cents a mile for six months for a trial, pay 2 per cent of its gross receipts to the city, with a guaranty of \$15,000 minimum a year, and acquire, as a condition precedent to granting the franchise, properties of the Red Top and Green and White Cab companies.

Plan Public Utility District

VISALIA'S city officials have under consideration early formation of a public utility district covering Visalia, Exeter, Hanford, Lindsay, and Tulare, following the recent rejection of an offer by the Southern California Gas Company to purchase a franchise dated from January, 1935, and paying 2 per cent annually on the gross revenue into the city coffers.

Since 1925 the gas company has been operating in Visalia without a franchise, the city attorney ruling that the Kettner franchise, under which the company operated, was never granted in accordance with the city charter.

Connecticut

Commissioner Higgins Dies

RICHARD T. Higgins, chairman of the public utilities commission since its establishment twenty-three years ago, died at Hartford Hospital September 16th, according to the *New York Herald Tribune*. He was sixty-eight years old.

Mr. Higgins was elected president of the National Association of Railroad and Utilities Commissioners last year.

He was born in Washington, Conn., a son of Edward and Mary Crowley Higgins. The family moved to Woodbury, where in 1881 he entered Woodbury High School. Later he

attended St. Francis College, Brooklyn, but had to leave after his sophomore year. He entered a law office in Woodbury, and three years later was admitted to the bar. He moved to Winsted, where a year later he became coroner of Litchfield county and representative in the general assembly. In 1910 he was appointed to the old board of railway commissioners by the late Governor Weeks.

A year later the late Governor Simeon L. Baldwin appointed him chairman of the reorganized board, the new public utilities commission. In 1921 Mr. Higgins received an honorary degree of Doctor of Laws from Fordham University.

Florida

Conference Petitions ICC

THOMAS E. Grady, Miami rate board expert, has petitioned the Interstate Commerce Commission for a hearing at which Florida shippers may oppose a railroad request for a general 10 per cent freight rate increase, according to an item in the *Miami Daily News*.

Grady petitioned in the name of the Florida Rate Conference, of which he is chairman and which has representatives in Jack-

sonville, Tallahassee, Orlando, and Tampa as well as Miami.

He estimated the increase would cost Dade county \$5,000 annually and the state about \$3,000,000.

The rate conference will oppose the increase on the ground it will be confusing and that it will not mean additional revenue for the railroads because it will shift much freight to short lines and other competing carriers.

The hearing, if obtained, probably will be held in Jacksonville.

Georgia

Ousted Commissioner Wins

THE victory of Walter McDonald, of Augusta, blind suspended public service commissioner, over Tobe Daniel, of LaGrange,

by a close county unit vote margin, upset the clean sweep of the Talmadge-backed candidates in the recent Democratic primary, according to the *Atlanta Constitution*.

Daniel succeeded McDonald last year when

PUBLIC UTILITIES FORTNIGHTLY

Governor Talmadge ousted the entire public service commission, of which James A. Perry was chairman.

The remainder of the commissioners on Governor Talmadge's slate won their posts, it is reported.



Illinois

More Rate Cuts Expected

IN a comprehensive report to Governor Horner the commerce commission stated that since it took office in January, 1933, savings in the amount of \$9,450,000 annually have been effected for utility consumers in Illinois, according to *The Wall Street Journal*. This total amount of savings includes

\$2,510,000 resulting from transfer of the 3 per cent Federal tax from the customers to the companies.

Chairman Lindheimer said that rate investigations now under way and to be started are expected to bring further substantial savings. Important cases pending include those of the Commonwealth Edison Company and Illinois Bell Telephone Company.



Indiana

Rate Pleas Must Stand

PETITIONERS who ask the public service commission to adjust utility rates may not withdraw their names from the petition except with the consent of all signers, and the public service commission, having started an investigation on petition, may not abandon it at the request of any or all petitioners.

This, according to the *Indianapolis News*, was the opinion given Monday to Moie Cook, a commissioner, by Philip Lutz, Jr., attorney general. The question was raised by Cook when eight of sixteen petitioners for rate adjustment attempted to withdraw from a petition and the utility asked its dismissal on

the ground that it did not represent the lawful number of petitioners.

The opinion, written by Herbert J. Patrick, deputy attorney general, said the petitioner signed the petition by reason of a common desire to bring about a joint action and the individual signer did not have the right to bind his co-signers by his individual action, thereafter.

The withdrawal of all the signatories after investigation had been started by the commission, would not, according to the opinion, relieve the commission of the duty of making the investigation started automatically on the filing of a properly prepared petition.



Massachusetts

Organize for Lower Rates

THE Utilities Consumers Association of Massachusetts, made up of about 100 local committees, has been formed to conduct a campaign for lower rates on gas, electricity, and telephone service, according to the *Boston Evening Transcript*.

The purposes of the organization, as set forth in a statement by its officers, are as follows:

"To conduct a campaign of education to advise the people of the commonwealth as to the proper rate that should be charged for gas, electricity, telephone, and all other lines of public service.

"To work toward the selection of public utility commissioners who will adequately protect the interest of the general public on all utility matters.

"To work for the enactment of legislation which will give all the municipalities of the commonwealth complete home rule with respect to the establishment of public utility plants.

"To secure the nomination and election of members of the general court regardless of party designation, who are pledged to support the purposes of the association."



Utility Offers New Rates

THE Boston Consolidated Gas Company has filed with the department of public utilities a new schedule of rates for domestic consumers, as a result of the action of the legislature in prohibiting service charges, according to the *Boston Evening Transcript*.

PUBLIC UTILITIES FORTNIGHTLY

Instead of the service charge of 50 cents per month and a rate of 10 cents per hundred cubic feet for the first 100,000 cubic feet, the new schedule calls for a charge of 60 cents for the first 100 cubic feet and 10 cents per hundred cubic feet for the next 9,900 cubic feet. The rate of 8 cents per hundred cubic feet for more than 100,000 cubic feet, and the

minimum charge of \$7 a year remain unchanged.

If approved by the department of public utilities, the new schedule of rates for electricity will apply to consumers in Boston, Brookline, Chelsea, Milton, Newton, Quincy, Somerville, Waltham, Watertown, Wellesley, and Weston.

Minnesota

Agree on Utility Franchise

AFTER months of bickering the St. Paul city council has reached an agreement with the Northern States Power Company on a 20-year gas, steam, and electric franchise, which will be submitted to the voters of the city on November 6th.

In the final discussions of the franchise, both sides made concessions, with the result that, if adopted, there will be effected a reduction in electric rates which, it is estimated, will save consumers approximately \$350,000 annually. However, but \$225,000 of the sum

will be available during the year beginning January 1st, next, the remainder being deferred until January 1, 1936. To the average consumer this means a saving of approximately 10 per cent.

No change will be made in the rates charged for gas until the city shall order the use of natural gas, which will shortly be available here. When the change is made the Northern States Power Company agrees to reduce rates to a total of \$139,000 for gas with a higher heating content, which will be around 800 B.T.U. as against the present 500.

Mississippi

TVA Electric Rates Boost Use

DOMESTIC consumption of electricity has more than doubled in Tupelo since Tennessee Valley Authority power made its debut here six months ago, according to a statement made by Major J. P. Nanney, reported by the *Associated Press*.

Mayor Nanney said the residential consumption of electricity in Tupelo has increased from 41,434 kilowatt hours for the month of March—first month under the TVA rates—

to 85,787 kilowatt hours for August, 1934.

He said that in August of 1933, when Tupelo purchased current for its city-owned distribution system from a private company, only 39,260 kilowatt hours of electricity was used in the city's homes and the average residential rate was 6.8 cents per kilowatt hour. This average cost has been reduced to 2.3 cents per kilowatt hour. The average family used 43 kilowatt hours in August of 1933 compared with 87.7 kilowatt hours in August this year.

Missouri

Reject Municipal Ownership

IN a recent election involving municipal ownership of utilities, voters of Moberly, voted almost three to one against a bond issue for \$566,000, which would have placed the city in the light and power business. The defeat of this project followed approval by the Public Works Administration of the municipal plant, and a grant of \$134,000 toward its cost. The campaign for the municipal project was led by the mayor and was favored by members of the city council, the opposition forces being led by a citizens' committee.

Citizens of Mound City, voted more than four to one against going into the electric light and power business, defeated, by a vote of 97 for and 406 against, a proposed bond issue of \$75,000.

Asks Cut in Utility Return

THE city of Cape Girardeau has filed a complaint with the public service commission, asking that the "fair return" of profit of the Missouri Utilities Company, which operates in the southeast Missouri city, be re-

PUBLIC UTILITIES FORTNIGHTLY

duced from 7½ per cent to 5 per cent, according to a statement in the *St. Louis Globe-Democrat*.

The Missouri Utilities Company, which has headquarters in St. Louis, supplies Cape Girardeau with electrical energy.



New Jersey

Urges Regulation Reform

ALL legislative candidates have been sent a letter by the Utility Users' Protective League of New Jersey asking that they give consideration to increased regulation of utilities, according to the *Newark Evening News*.

The league likened the money spent for public utilities to taxes and contended their administration was a quasi public function. It charged the Public Service Corporation re-

ported by the league to have received 76 per cent of the money paid for utilities in 1932, "is organized on a profligate basis, which ignores the interests of New Jersey taxpayers."

The letter is the first of four to be sent to the candidates by the league. The second also will deal with the utilities situation; the third will contain recommendations of the league, and the fourth will contain a questionnaire relative to the position of the candidates on utility regulation reform.



New York

Appeals Non-profit Decision

THE Municipal Electric Utilities Association will appeal the public service commission's decision that municipal utility plants should not make a profit on their operations and that a just and reasonable rate for municipal plants is one that produces sufficient revenue to cover the cost of service, according to *The Wall Street Journal*.

This action will be taken just as soon as the commission's opinion is made final by a direct order, and will be based on the grounds often used by private utilities in defense of their rights, viz: the recently oft-quoted Fifth and Fourteenth Amendments of the Federal Constitution pertaining to seizure of property without due process of law.

The decision if upheld by the courts would be a serious blow to adherents of municipal utility operation in New York state. It would practically eliminate one of the chief talking points for public ownership, and drop from the rosters the "tax free towns," which credit their position to municipal operation of their utility services.

by Franklin D. Roosevelt, then governor of New York, when the Authority was formed in May, 1931.

Before that time, Professor Bonbright, with the chairman of the Authority, Frank P. Walsh, was a minority member of the Public Service Survey Commission. It was in that 2-year period from 1929 to 1931 that his demands for utility reform and changes in the regulation of utilities by the public service commission became generally known.

Professor Bonbright has progressive views on public utility regulation. In a public address in February he characterized the present regulation as a failure and declared that public ownership of utilities was inevitable unless the present regulatory system was re-organized.

As members of the survey commission, Mr. Walsh and Professor Bonbright presented a minority report in which they charged that the public service commission under William A. Prendergast was guilty of gross neglect in its administration of utilities.

Favors Profit-sharing Plan

A PLAN whereby privately owned utility companies would be allowed a rate base on which they could earn 5, or possibly 6, per cent on the value of their properties, with an agreement that half of the profits in excess of that amount would go to consumers in the form of rate reductions, is favored by John E. Mack, counsel for the New York state joint legislative committee for the investigation of public utilities, according to *The Wall Street Journal*.

Of all the plans studied thus far—and the committee has written to every state gov-

Power Board Elects Bonbright

DR. James C. Bonbright, professor of finance in the school of business at Columbia University, and internationally known for his criticism of the present rate-making policies of public utilities, has been elected vice chairman of the Power Authority of the state of New York, according to *The New York Times*.

Professor Bonbright, who succeeds the late Delos M. Cosgrove of Watertown, N. Y., was appointed a trustee of the Power Authority

PUBLIC UTILITIES FORTNIGHTLY

ernor and every public service commission in the United States on the subject—the Washington, D. C., arrangement whereby the utility divides its profits with its customers through rate reductions after the company has received $7\frac{1}{2}$ per cent on its property value has impressed the counsel for the investigating committee most favorably.

Mr. Mack would modify it, however, by lowering the rate of earnings to go to the companies initially from $7\frac{1}{2}$ to 5 or possibly 6 per cent, but he believes the companies

should then share equally with the customers in any additional earnings, in order to keep the profit incentive as vigorous as possible. Under the Washington plan, the company's share of the profits over $7\frac{1}{2}$ per cent starts at 30 per cent, he said, and the percentage becomes even smaller as profits mount. He would guard the utilities from the fate of the railroads under the recapture law by revising rates upward at the end of any year in which profits fell below the minimum of 5 per cent on property value.



North Carolina

Resume Telephone Inquiry

SEGREGATED property appraisals of its various exchanges in North Carolina will not be required of the Southern Bell Telephone and Telegraph Company, but instead the findings of the utilities commission in the Raleigh rate hearing will be applicable to the statewide system.

Commissioner Stanley Winborne announced recently upon resumption of the hearing, which was recessed in July, that the Southern Bell had advised him it could not possibly

produce the appraisals for several months, and consequently the statewide basis was agreed upon.

When the telephone company was ordered last May to show cause why its rates should not be reduced approximately 22 per cent in Raleigh, other cities hastened to file as interveners until nine, altogether, had petitioned to be included with Raleigh if the commission ordered a reduction.

Intervener cities were Charlotte, Asheville, Greensboro, Goldsboro, Burlington, Wilmington, Shelby, Salisbury, and Winston-Salem.



North Dakota

To Decide Utility Tax Case

FINAL submission of the question of constitutionality of North Dakota's 12 per cent gross earnings tax on utilities was scheduled to begin September 14th before three Federal court district judges at Minneapolis.

The concerns maintain the law is unconstitutional, basing their assertions on the fact

the law was passed March 6, 1933, three days after the legislature adjourned, in a session at which the clock was "turned back." They further allege discrimination in the act, maintaining smaller independent companies are not subject to the tax.

Testimony of witnesses in the case was taken June 19th at Bismarck, before special master in chancery, Agnes McMichael.



Ohio

Agree on Lower Gas Rates

ABANDONING its long fight, the East Ohio Gas Company recently agreed to an average reduction of 7.6 cents per thousand cubic feet under present rates, and to an immediate rebate of \$3,800,000 to its 232,000 consumers in Cleveland, according to the *Columbus Evening Dispatch*.

The new rate became effective immediately. The rebate will be paid in cash within ninety days, or applied on bills owed to the gas company.

The new rates are 50 cents per thousand for the first 2,000 cubic feet, 55 cents per

thousand for the next 8,000 cubic feet, and 60 cents per thousand for all above 10,000 feet. The present service charge of 50 cents a month is eliminated, and a 75-cent monthly minimum charge substituted.



Approves Gas Rate

A NEW 48-cent gas rate ordinance for Columbus was passed by unanimous vote in city council and voters will pass on the ordinance in November.

The Columbus Gas & Fuel Company, ac-

PUBLIC UTILITIES FORTNIGHTLY

cording to the *Columbus Evening Dispatch*, submitted a written notice to council declaring the intention of the company to fight the legislation in the courts, just as it has fought the present 48-cent ordinance, which expires November 15th, for the last five years.

The ordinance is similar in all respects to the present legislation which has been the subject of litigation before the utilities commission and courts for so many years.

Dayton Power Offers Rate Cut

THE Dayton Power & Light Company, subsidiary of Columbia Gas & Electric Company, has voluntarily offered the city of Dayton a reduction in power rates in a schedule filed by Frank M. Tait, president, with the city commission, covering the five years beginning October 1, 1934.

According to *The Wall Street Journal*, Tait estimated that the reduction would save consumers approximately \$1,827,580 during the period.

The reduced schedule of rates, according to the *Chicago Tribune*, is offered on condition that the authorities agree to a system of rate readjustments to insure the company against inflation in certain items of cost.

The proposal follows the outlines of the one

successfully made in August by Union Electric Light and Power Company with the city of Cincinnati. That company is now working under an arrangement which provides that the company will be allowed to readjust its rates to compensate for any increase of \$200,000 or more per year in the cost of operation if the increase is due to any act or order of Federal, state, or local governing bodies.

The items thus covered are taxes, wages, and fuel. It is also provided that in the event of a decline in costs rates shall be adjusted downward in the same manner.

Lower Rates Offered County

A COUNTY-WIDE reduction of electric light rates will be put into effect if Columbus voters on November 6th approve the new light rate ordinance, Ben W. Marr, president of the Columbus Railway, Power & Light Company, announced after city council had passed the new rate ordinance, which will save local consumers \$734,000 annually, according to the *Columbus Evening Dispatch*.

Residents of Bexley, Upper Arlington, and Grandview Heights, as well as those of other suburban communities, will benefit by the county reduction in rates.

South Carolina

Sets Date for Hearing

GREENWOOD county having filed completed plans for the hydroelectric plant which the county proposes to erect on the Saluda river, and for which it has applied for license, the matter has been set for a public hearing by the Federal Power Commission in Washington, October 11th, according to a state-

ment published in *The News and Observer*.

"The Duke Power Company," said Commissioner Chairman Frank R. McNinch, "has filed a protest against granting of the license, requesting a hearing. Representatives of that company will be given an opportunity to appear and be heard on October 11th, at the same time that the representatives of Greenwood county appear before the commission."

Tennessee

Signs TVA Contract

DAYTON hopes to have TVA current by December 15th, following a called meeting of the city commissioners recently when a contract was signed with the TVA, according to the *Knoxville Journal*.

Work will begin at an early date on transmission lines from Athens.

The contract is subject to the approval of

the TVA directors, but every assurance has been given that it would receive immediate approval. The contract calls for the same rate as that given power users in Tupelo, Miss.

A surcharge of 10 per cent will be added to the commercial rate to offset the expense incurred in the construction of the power line.

Dayton is one of the few towns in the state with a municipally owned power plant.

Texas

PWA Denies Caballo Dam Loan

DEVELOPMENT of the proposed hydroelectric power project at the Caballo and Elephant Butte dams is regarded as hanging in the balance, following the receipt of advices from PWA officials that the application for \$1,000,000 with which to build the necessary higher Caballo dam would not be granted at this time, according to the *El Paso Times*.

Congressman R. E. Thomason has appealed to Secretary Harold Ickes, Public Works Administrator, to reopen the matter and withhold final decision until the Congressman Dennis Chavez of New Mexico and water users on the Rio Grande project could present the case in person.

Virginia

VPS Joins Other Utilities in Wide Rate Cut

THE Virginia Public Service Company has followed the Appalachian Electric and Power Company and the Virginia Electric and Power Company with a reduction in rates to affect most of its customers, making a total reduction in power rates for the past year approximately \$751,500.

The VPS plan affects 42,000 customers, and provides a cut of approximately \$77,700 to electricity users, and about \$36,000 to gas consumers, according to the *Richmond News Leader*.

Under the state corporation commission's 1933 plan the three major power companies were investigated in an informal proceeding, the commission having retained the Allen J. Saville organization for the work. In none of the three cases was it necessary to institute a regular investigation, the utility companies having, in the light of the Saville

valuations, decided voluntarily to cut their rates.

The Appalachian cut \$186,800 from its consumers' annual electric bills; the Virginia Electric and Power Company \$366,000 from its power bills, and \$85,000 from its gas bills in the Norfolk area.

The Saville investigation cost the state \$50,000, less than the cost of one formal rate investigation.

Regarding the VPS cut, the commission said that "Effective October 1, 1934, the first step in domestic lighting and small appliance rate will be reduced, which will affect immediately about 38,500 customers with an annual reduction of about \$41,000. Successive changes, by reducing the number of kilowatt hours in the first step, and reducing the rate per kilowatt hour after the first step, are to be made effective January 1, April 1, and September 1, 1935, which will effect an additional reduction of about \$36,700. The total reduction, as a result of the new rates, will be about \$77,700."

Wisconsin

Seeks Five-cent Bus Fare

A 5-CENT bus fare for Madison and an hourly wage of 60 cents for the bus operators was unanimously approved by the common council recently when it adopted resolutions asking the public service commission to order the lower fare and issue a permit to the company it deemed best qualified to furnish bus transportation service.

The council also adopted the report of Mayor Law's special transportation committee which made the recommendations contained in the resolutions, according to the *Wisconsin State Journal*.

Law's committee took no action on taxis, dismissing that matter with the statement that no legislation is needed as the business now

carried on by the 10-cent taxis will decrease if a 5-cent bus rate is inaugurated.

Investigates Municipal Rates

RATE investigations of four municipal utilities because a preliminary study of their 1933 reports indicated excessive earnings were ordered by the public service commission recently, according to the *Wisconsin State Journal*.

Utilities whose rates will be investigated are: Prairie du Sac, Sauk county, village electric; Spooner, Washburn county, city electric; Slinger, Washington county, village electric; and Cadott, Chippewa county, village electric.

The Latest Utility Rulings

Public Utility Bonds Should Be Registered under Securities Act

THE New York commission has criticized the failure of a public utility company to register a bond issue under the National Securities Act. The commission admitted that it could not directly compel a company to register new issues, but it announced that applications involving issues without registration would not be approved unless there were compelling reasons for such a course. The commission also commented on the staggering costs imposed upon corporations under the Securities Act. It was said:

Every company ought to get the largest possible amount from the issuance of bonds, and unregistered securities will not bring to the company as much in cash as registered securities. It may be that there are circumstances where unregistered issues should be authorized, but we cannot at this moment conceive of the circumstances under which this course will be approved in the

future in the case of a large issue. We appreciate that an expense of \$180,000 and six to nine months for preparing the necessary papers is a very heavy burden. We have not yet inquired into the justification and the reasonableness of such costs, but it is obvious that if the present rules as to registration necessitate an expenditure of 3 per cent of the face value of securities (which may be questioned) where the issue is so large as \$6,000,000 and six to nine months, a revision of the rules or of the law, particularly in the case of public utilities whose affairs are regulated by state bodies, is necessary. Railroad securities are exempt from the necessity of registration, because the Interstate Commerce Commission supervises the railroads. If this is an adequate reason, there is all the more reason why public utilities subject to strict state regulation should not be required to spend 3 per cent of the face value of securities and delay their issue from six to nine months.

Re Long Island Lighting Co. (Case No. 6197).



Separate Corporations under Common Control Are Separate Customers

MUCH has been said about public utility holding companies and disregard of the "corporate fiction" in public utility regulation. It is, therefore, diverting to find public utility customers themselves enmeshed in the intricacies of intercorporate relationships. Such a relationship has been discovered by the New York commission.

The Edison Electric Company of New York city has in one of its schedules a "conjunctive rider" applicable to two or more buildings which are operated as a single property under a "common ownership or leasehold of record." Combined service under this rider results in lower rates. Complaint

was made to the commission by a corporation holding all the stock of two separate corporations, which in turn owned buildings requiring electric service, that the utility company refused to grant it the benefits of the conjunctive rider. The commission dismissed the complaint.

Assistant Counsel Harry M. Chamberlain, whose report was approved by the commission, said the question was whether under the conditions stated 100 per cent stock ownership should be deemed to constitute a common ownership of record. He continued:

I do not think that an ownership by a holding corporation of 100 per cent of the

PUBLIC UTILITIES FORTNIGHTLY

stock of two corporations could constitute a "common ownership" within the meaning of that term as used in the schedule. (See *Brock v. Poor*, 216 N. Y. 387, 402.) In any event it could not constitute a common ownership "of record" (see 53 Corpus Juris, 599). What the schedule evidently means is that there shall be a common ownership in the sense that the title to both parcels of real estate shall be vested in the same person or corporation and that the deed or deeds evidencing such common ownership shall have been duly recorded.

He went on to say that the apparent intention of the utility in using the words "of record" was to further the practical administration of the rider by adopting a definite provision which can be enforced, and compliance with which can always be within the knowledge of the utility through reference to public record. Such control, he said, would be

rendered difficult, if not impossible, if stock ownership or any other form of unrecorded control were to be held to satisfy the requirements of the schedule.

Furthermore, if control and dominion are to be regarded as the determining factors, such control and dominion can be brought about through ownership of much less than 100 per cent of the stock of the corporation, and, when one considers the ease with which stock can be transferred, it is apparent that what one day might constitute a stock control might on the next day disappear entirely so that it would be difficult for the utility to determine who would be entitled to service under the rider or when the conditions of that rider had been violated. *Re New York Edison Co. (Case No. 8242).*



City May Be Allowed Expenses in Rate Litigation

PUBLIC utilities bear the cost of presenting their rate cases before regulatory bodies and are usually allowed to charge this expense against ratepayers. In some states they also pay to the regulatory body certain amounts to cover the cost of regulation, which expenses are also charged to ratepayers. In a recent decision by the West Virginia commission a city attacking rates asked that its own expenses be charged to the utility, but the commission refused to make such an allowance to the city. The supreme court of appeals of West Virginia has reversed the commission decision, and on this point has stated:

Such claim is based upon two premises,

namely: (1) That the tax limitation amendment has deprived the city of even the necessary revenues with which to carry on its usual governmental functions; and (2) that it is only fair that the gas consumers should be required to contribute ratably to such expense. Such charge, in the absence of the actual agreement of the ratepayers, would necessarily be dependent upon a materially beneficial ruling in favor of the consumers; otherwise the consumer would be thrown open to unnecessary rate litigation at the instance of designing persons. If, on the final disposition of the case, the ruling of the commission is materially beneficial to the consumers, it may allow a reasonable sum for expenses, to be charged over a period of years; such sum not to be considered in arriving at a proper rate base.

Wheeling v. Natural Gas Co. 175 S. E. 339.



Commission Asserts Jurisdiction over Power Supply by Lumber Companies to Electric Utilities

RATES for a power supply furnished to a distributing utility by lumber companies which were the joint owners of generating plants were held in a recent decision by the Washington De-

partment of Public Works to be subject to regulation by the department. This ruling was made in connection with an investigation of the rates of the West Coast Power Company. The commis-

PUBLIC UTILITIES FORTNIGHTLY

sion proceeded not only against this utility but against the Simpson Logging Company and the Henry McCleary Timber Company which produced the power.

The joint owners, it was said, as well as their plant fell within the definitions of "electrical company" and "electrical plant" as defined by the Washington statutes. The board was of the opinion, however, that the joint owners were not a public service company in the sense that the department could direct them to furnish service to individual customers or to a municipality or any other public service company not being served. But they had elected to become the wholesaler of power to the utility, and, according to the ruling, when they did so they thereby submitted themselves, in so far as furnishing such wholesale power was concerned, to the jurisdiction of the department. It was said:

It seems to the board that if the jurisdiction of the department is to be made effective, it must extend to every phase of the furnishing of public service, including (in the case of electrical service) both generation and distribution. If this is not the case, the department's jurisdiction can be escaped and the public authority mocked by the mere device of creating separate legal entities to cover successive steps in the process of furnishing public service. The contention on the part of the joint owners that they are engaged in the production of logs and lumber and never intended to and do not want to be engaged in the furnishing of public service does not alter the fact that they are engaged in the furnishing of such service. That fact and not their declaration and desire determines their status. Jurisdiction of the department depends and must depend upon what the joint owners do *electrically*, or in connection with the rendering of public service, irrespective of what other business or businesses they may carry on.

Department of Public Works v. West Coast Power Co. (Cause No. 6615).



No Return Allowed Where Stockholders Have No Equity

A PECULIAR situation was present in a rate case before the Wisconsin commission in that customer contributions and retirement reserve exceeded the book value of property and plant. The company involved furnished electricity to rural customers who had been required to make substantial contributions in the form of a connection charge. The commission said:

On the basis of book figures, therefore, as they appear in the annual reports to the commission, the stockholders have no

equity in the property. The customers, through contributions for extensions and revenues reserved for retirements, have an equity or have returned to stockholders in excess of the total book value of the property. For this reason it will not be necessary to make findings regarding value of the rate base in this case. On the basis of these facts reasonable rates need to cover no more than reasonable operating expenses and fixed charges on the utility property, sufficient only to keep the enterprise in a sound financial position.

Carlson v. Polk Burnett Light & Power Co. (2-U-636).



Utility Is Not Required to Refund Proper Bill Collected by Means of Improper Threat

A PUBLIC utility company is not entitled to deny service at the new residence of a customer in order to compel payment of a disputed bill at a former residence, but, nevertheless, when the bill has been collected under a threat to discontinue, the utility is not

required to return the amount to the customer, according to a recent ruling by the Pennsylvania commission.

A customer of the Manufacturers Light and Heat Company in Pittsburgh contracted for service in 1929 at his residence on Homehurst street. In

PUBLIC UTILITIES FORTNIGHTLY

1930 he moved to Library road but did not notify the company, which continued to furnish service at the Homehurst street house until it was notified to discontinue service in 1933. The house in the meanwhile was occupied by the son-in-law of the customer. He failed to pay part of the bill.

The utility company threatened to discontinue service at the Library road residence unless the bill was paid. It was paid under protest. In the meantime the company had secured a judgment against the customer for the amount of the bill. Complaint was made to the commission that the threat to discontinue service was improper in order to compel payment of the bill, and the customer asked for the return of the amount paid.

The commission discussed the rights of a public service company in connection with the enforcement of payment of obligations due to it. It was said that there are proper means of making collections without threatening discontinuance of service at premises other than those where the delinquency took place. A public service company has all the right possessed by any other creditor to enforce payment. In addition, it may insist upon a deposit in a reasonable amount to guarantee payment. The commission said that dis-

continuance of service is a means of preventing future losses and not an arbitrary method of compelling payment of prior bills not covered, or covered only in part, by deposit.

Failure to exercise proper precautions to compel payment, it was said, is to invite discrimination against those patrons who do pay their bills, but these precautions may be only such as are reasonable under the circumstances, and in no case is a company justified in denying service where there is in good faith a question as to liability if the company has no reason to fear for the payment for its future service. The commission said further:

The contract for service at each place is separate, and ordinarily a discontinuance at one point because of a delinquency at another is unreasonable, for only in comparatively rare instances could a delinquency at one location be a ground in and of itself for a company considering that payments for its service at another point were in danger.

The commission, however, stated that it was not its function to review the findings of the court, and it was not the province of the commission to adjudicate a controversy over a disputed bill. Therefore, the return of the customer's money could not be required. *Luffy v. Manufacturers Light & Heat Co.* (Complaint Docket No. 10105).



Utility Commission Refuses Rate Reductions

THE Ohio Public Utilities Commission for the first time in its history has refused a utility's application for lower rates, according to the *Cleveland Plain Dealer*. In the decision the village of Oberlin found a victory for the cause of municipal utility ownership.

Speaking for himself and Commissioner Charles F. Schaber, Chairman E. J. Hopple of the commission found that the Ohio Electric Power Company's application to place lower rates in effect in Oberlin would result in operation below cost.

The application, former Acting May-

or Harold H. Burton of Cleveland and other counsel for the village declared, was a move on the part of the privately owned utility to throttle the village's new municipal light plant, which is handling more than half of the business in Oberlin.

The company, denying that the commission had jurisdiction in the case, insisted that its proposed schedule would still allow the company to operate above cost.

The company now is charging 7½ cents each for the first 10 kilowatt hours, 6 for each of the next 30, 4